

LEE ENTERPRISES, INC
Form 10-K
December 11, 2009
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 27, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-6227

LEE ENTERPRISES, INCORPORATED

(Exact name of Registrant as specified in its charter)

Delaware
(State of incorporation)

42-0823980
(I.R.S. Employer Identification No.)

201 N. Harrison Street, Suite 600, Davenport, Iowa 52801

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(Address of principal executive offices)

(563) 383-2100

Registrant's telephone number, including area code

| Title of Each Class | Name of Each Exchange On Which Registered |
|---|---|
| Securities registered pursuant to Section 12(b) of the Act: | |
| Common Stock - \$2 par value | New York Stock Exchange |
| Preferred Share Purchase Rights | New York Stock Exchange |
| Securities registered pursuant to Section 12(g) of the Act: | |
| Class B Common Stock - \$2 par value | |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this Chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter. Based on the closing price of the Registrant's Common Stock on the New York Stock Exchange on March 27, 2009: approximately \$12,576,000. For purposes of the foregoing calculation only, as required, the Registrant has included in the shares owned by affiliates the beneficial ownership of Common Stock and Class B Common Stock of officers and directors of the Registrant and members of their families, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 30, 2009. Common Stock, \$2 par value, 39,103,410 shares and Class B Common Stock, \$2 par value, 5,766,805 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Lee Enterprises, Incorporated Definitive Proxy Statement to be filed in January 2010 are incorporated by reference in Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This report contains information that may be deemed forward-looking that is based largely on Lee Enterprises, Incorporated's current expectations, and is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those anticipated. Among such risks, trends and other uncertainties, which in some instances are beyond its control, are the Company's ability to generate cash flows and maintain liquidity sufficient to service its debt, and comply with or obtain amendments or waivers of the financial covenants contained in its credit facilities, if necessary.

Other risks and uncertainties include the impact and duration of continuing adverse economic conditions, changes in advertising demand, potential changes in newsprint and other commodity prices, energy costs, interest rates and the availability of credit due to instability in the credit markets, labor costs, legislative and regulatory rulings, difficulties in achieving planned expense reductions, maintaining employee and customer relationships, increased capital costs, competition and other risks detailed from time to time in the Company's publicly filed documents.

Any statements that are not statements of historical fact (including statements containing the words "may", "will", "would", "could", "believes", "expects", "anticipates", "intends", "plans", "projects", "considers" and similar expressions) generally should be considered forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this report. The Company does not undertake to publicly update or revise its forward-looking statements.

PART I

The Company experienced significant net losses in 2009 and 2008, due primarily to impairment of goodwill and other assets, and its financial position and liquidity have deteriorated. The information included herein should be evaluated in that context. See Item 1A, "Risk Factors", and Notes 6 and 7 of the Notes to Consolidated Financial Statements, included herein, for additional information.

References to 2009, 2008, 2007 and the like mean the fiscal years ended the last Sunday in September.

ITEM 1. BUSINESS

Lee Enterprises, Incorporated (the "Company"), is a premier provider of local news, information and advertising in primarily midsize markets, with 49 daily newspapers and a joint interest in four others, rapidly growing online sites and nearly 300 weekly newspapers and specialty publications in 23 states.

The Company is consistently focused on six key strategic priorities. They are to:

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- Grow revenue creatively and rapidly;
- Deliver strong local news and information;
- Maximize local online strength;
- Continue expanding print and online audiences;
- Nurture employee development and achievement; and
- Exercise careful cost control.

Certain aspects of these priorities are discussed below.

The Company was founded in 1890, incorporated in 1950, and listed on the New York Stock Exchange (NYSE) in 1978. Until 2001, the Company also operated a number of network-affiliated and satellite television stations. The Company has acquired and divested a number of businesses since 2001. The most significant of these transactions is discussed below.

PULITZER ACQUISITION

In 2005, the Company acquired Pulitzer Inc. (Pulitzer). Pulitzer published 14 daily newspapers and more than 100 weekly newspapers and specialty publications. Pulitzer also owned a 50% interest in TNI

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Partners (TNI), as described more fully below. The acquisition of Pulitzer increased the Company's paid circulation by more than 50% and revenue by more than 60% at that time.

Pulitzer newspaper operations include St. Louis, Missouri, where its subsidiary, St. Louis Post-Dispatch LLC (PD LLC), publishes the *St. Louis Post-Dispatch*, the only major daily newspaper serving the greater St. Louis metropolitan area, and a variety of specialty publications, and operates its related websites. St. Louis newspaper operations also include the Suburban Journals of Greater St. Louis, a group of weekly newspapers and niche publications that focus on separate communities within the metropolitan area.

Pulitzer and its subsidiaries and affiliates currently publish 12 daily newspapers and operate the related websites, as well as publish approximately 75 weekly newspapers, shoppers and niche publications that serve markets in the Midwest, Southwest and West. In 2006, the Company sold the assets of *The Daily News* in Rhinelander, Wisconsin, the smallest of these newspapers. In 2008, the Company sold the assets of *The Daily Chronicle* in DeKalb, Illinois.

TNI Partners

As a result of the acquisition of Pulitzer, the Company owns a 50% interest in TNI, the Tucson, Arizona, newspaper partnership. TNI, acting as agent for the Company's subsidiary, Star Publishing Company (Star Publishing), and the owner of the remaining 50%, Citizen Publishing Company (Citizen), a subsidiary of Gannett Co., Inc., (Gannett) is responsible for printing, delivery, advertising and circulation of the *Arizona Daily Star* and, until May 2009, the *Tucson Citizen*, as well as their related online operations and specialty publications. In May 2009, Citizen discontinued print publication of the *Tucson Citizen*.

TNI collects all receipts and income and pays substantially all operating expenses incident to the partnership's operations and publication of the newspapers and other media. Each newspaper was solely responsible for its own news and editorial content. Under the amended and restated operating agreement between Star Publishing and Citizen (the Agency Agreement), the *Arizona Daily Star* remains the separate property of Star Publishing. Results of TNI are accounted for using the equity method. Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen.

Until May 2009, upon discontinuation of print publication of the *Tucson Citizen*, TNI was subject to the provisions of the Newspaper Preservation Act of 1970 which permits joint operating agreements between newspapers under certain circumstances without violation of the Federal antitrust laws. Agency agreements generally allow newspapers operating in the same market to share certain printing and other facilities and to pool certain revenue and expenses in order to decrease aggregate expenses and thereby allow the continuing operation of multiple newspapers in the same market.

The TNI agency agreement (Agreement), which remains in effect, has governed the operation since 1940. Both the Company and Citizen incur certain administrative costs and capital expenditures that are reported by their individual companies. The Agreement expires in 2015, but contains an option, which may be exercised by either party, to renew the agreement for successive periods of 25 years each. Star and Citizen also have a reciprocal right of first refusal to acquire the 50% interest in TNI owned by Citizen and Star, respectively, under certain circumstances.

MADISON NEWSPAPERS

The Company owns 50% of the capital stock of Madison Newspapers, Inc. (MNI) and 17% of the nonvoting common stock of The Capital Times Company (TCT). TCT owns the remaining 50% of the capital stock of MNI. MNI publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, and operates their related online sites. MNI conducts business under the trade name Capital Newspapers. The Company has a contract to furnish the editorial and news content for the *Wisconsin State Journal*, which is published by MNI, and periodically provides other services to MNI. Results of MNI are accounted for using the equity method. Net income or loss of MNI (after income taxes) is allocated equally to the Company and TCT. In 2006, MNI sold the assets of its Shawano, Wisconsin, daily newspaper. In 2008, one of MNI's daily newspapers in Madison, *The Capital Times*, decreased print publication from six days per week to one day.

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ADVERTISING

Approximately 73% of the Company's 2009 revenue was derived from advertising. The Company's strategies are to increase its share of local advertising through increased sales activities in its existing markets and, over time, to increase its print and online audiences through internal expansion into existing and contiguous markets and enhancement of online offerings. The Company's advertising results consistently outperform national averages, as compiled by the Newspaper Association of America (NAA).

Several of the Company's businesses operate in geographic groups of publications, or clusters which provide operational efficiencies and extend sales penetration. Operational efficiencies are obtained through consolidation of sales forces, back office operations such as finance or human resources, management or production of the publications. Sales penetration can improve if the sales effort is successful in cross-selling advertising into multiple publications and online. A table under the caption Daily Newspapers and Markets in Item 1 identifies those groups of the Company's newspapers operating in clusters.

The Company's newspapers and classified and specialty publications compete with newspapers having national or regional circulation, magazines, radio, network, cable and satellite television, other advertising media such as outdoor, mobile, and movie theater promotions, other classified and specialty publications, direct mail, yellow pages directories, as well as other information content providers such as online sites. Competition for advertising is based on audience size and composition, circulation levels, readership demographics, distribution and display mechanisms, price and advertiser results. In addition, several of the Company's daily and Sunday newspapers compete with other local daily or weekly newspapers. The Company estimates that it captures a substantial share of the total advertising dollars spent in each of its markets.

The number of competitors in any given market varies. However, all of the forms of competition noted above exist to some degree in the Company's markets, including those listed in the table under the caption Daily Newspapers and Markets in Item 1.

The following broadly define major categories of advertising revenue, in descending order of importance:

Retail advertising is revenue earned from sales of display advertising space in the publication, or for preprinted advertising inserted in the publication, to local accounts or regional and national businesses with local retail operations.

Classified advertising, which includes employment, automotive, real estate for sale or rent, legal and other categories, is revenue earned from sales of advertising space in the classified section of the publication or from publications consisting primarily of such advertising. Classified publications are periodic advertising publications available in racks or delivered free, by carriers or third-class mail, to all, or selected, households in a particular geographic area. Classified publications offer advertisers a cost-effective local advertising vehicle and are particularly effective in larger markets with higher media fragmentation.

Online advertising consists of display, banner, behavioral targeting, search, rich media, directories, classified or other advertising on websites associated and integrated with the Company's print publications or on third party affiliated websites, such as Yahoo! Inc. (Yahoo!).

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National advertising is revenue earned from display advertising space, or for preprinted advertising inserted in the publication, to national accounts, if there is no local retailer representing the account in the market.

Niche publications are specialty publications, such as lifestyle, business, health or home improvement publications that contain significant amounts of advertising.

The Company's many geographic markets have differences in their advertising rate structures, some of which are highly complex. A single operation often has scores of rate alternatives.

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The advertising environment is influenced by the state of the overall economy, including unemployment rates, inflation, energy prices and consumer interest rates. The Company's enterprises are primarily located in midsize and smaller markets. Historically these markets have been more stable than major metropolitan markets during downturns in advertising spending but may not experience increases in such spending as significant as those in major metropolitan markets in periods of economic improvement.

ONLINE ADVERTISING AND SERVICES

The Company's online activities include websites supporting each of its daily newspapers and certain of its other publications. Internet activities of the newspapers, except for TNI and MNI, are reported and managed as a part of the Company's publishing operations.

In 2007, the Company, in conjunction with several other major publishing organizations (Consortium), entered into a strategic alliance with Yahoo!, in which the Consortium offers its classified employment advertising customer base the opportunity to also post job listings and other employment products on Yahoo!'s HotJobs national platform. In addition, the Consortium and Yahoo! have worked together to provide new behavioral targeting, search, content and local applications across the newspapers' online sites, further enhancing the value of these sites as a destination for online users. The Consortium currently includes more than 30 companies and approximately 800 local newspapers across the United States.

The Company also owns 82.5% of an Internet service company, INN Partners, L.C. (doing business as TownNews.com), which provides online infrastructure and online publishing services for more than 1,500 daily and weekly newspapers and shoppers, including those of the Company.

Until 2008, online businesses of the Company experienced rapid growth. Online advertising represented 6.8% of total advertising revenue in 2009. Online page views increased 7.9% between September 2008 and September 2009.

Table of Contents**AUDIENCES**

Based on independent research, the Company estimates that, in an average week, its newspapers and online sites reach approximately 68% of adults in its larger markets. In the St. Louis market, Scarborough Research estimates the *St. Louis Post Dispatch* and STLToday.com reach almost 65% of adults, ranking first for combined reach in the 30 most populated U.S. markets. The Company's extensive array of suburban newspapers and other publications further increases reach in St. Louis and other markets. Readership by young adults is significant in the Company's larger markets, and is also growing, as summarized in the table below. The Company is reaching an increasingly larger share of the market through stable newspaper readership and rapid online audience growth, as illustrated in the table below, as well as through additional specialty and niche publications.

Audience reach is summarized as follows:

| (Past Seven Days) | All Adults | | | Age 18-29 | | |
|------------------------|------------|------|------|-----------|------|------|
| | 2007 | 2008 | 2009 | 2007 | 2008 | 2009 |
| Print only users | 48% | 49% | 45% | 35% | 38% | 38% |
| Print and online users | 13 | 16 | 16 | 14 | 18 | 15 |
| Online only users | 5 | 6 | 7 | 6 | 9 | 8 |
| Total reach | 66% | 71% | 68% | 55% | 65% | 61% |

Source: Lee Enterprises Audience Report, Thoroughbred Research. January – June 2007, 2008 and 2009.
 Markets: St. Louis, MO, Madison, WI, Escondido, CA, Northwest Indiana, Lincoln, NE, Davenport, IA, Billings, MT, Bloomington, IL, Sioux City, IA, Waterloo, IA
 Margin of Error: Total sample +/- 1.1%, Total on-line sample +/- 1.3%

After advertising, print circulation is the Company's largest source of revenue. The Company generally does not charge for online access to its content. According to *Editor and Publisher International Yearbook* data as reported by the NAA, nationwide daily newspaper circulation unit sales have decreased 23% cumulatively through 2008 since their peak in 1984 and Sunday circulation unit sales have decreased 23% since their peak in 1990. The number of daily newspapers declined 17% from 1984 to 2008 and the number of Sunday newspapers increased 5% from 1990 to 2008. For the six months ended September 2009, the Company's daily circulation, which includes TNI and MNI, as measured by the Audit Bureau of Circulations (ABC) declined 6.4%, and Sunday circulation declined 5.8%, outperforming the industry as a whole, which experienced declines of 10.6% daily and 7.4% Sunday. Since September 2001, the Company's daily and Sunday circulation have declined cumulatively by 14.0% and 5.1%, respectively. These changes represent average annual declines of 1.8% and 0.6%, respectively. Such results are, in substantially all reporting periods, better than industry averages.

Growth in print and online audiences can, over time, also positively impact advertising revenue. The Company's strategies to improve audiences include continuous improvement of content and promotional efforts. Content can include focus on local news, features, scope of coverage, headline accuracy, presentation, writing style, tone, type style and reduction of factual errors. Promotional efforts include advertising, contests and other initiatives to increase awareness of the products. Customer service can also influence print circulation.

The Company's enterprises are also focused on increasing the number of subscribers who pay for their subscriptions via automated payment mechanisms, such as credit cards or bank account withdrawals. Customers using these payment methods have historically higher retention.

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Other initiatives vary from location to location and are determined principally by management at the local level in collaboration with senior management of the Company. Competition for print circulation is generally based on the content, journalistic quality and price of the publication.

Audience competition exists in all markets, even from unpaid products, but is most significant in markets with competing local daily newspapers. These markets tend to be near major metropolitan areas, where the size of the population may be sufficient to support more than one daily newspaper.

The Company's circulation sales channels continue to evolve through an emphasis on targeted direct mail and email to acquire new subscribers and retain current subscribers.

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The Company, TNI and MNI publish the following daily newspapers and maintain the following primary online sites:

| Newspaper | Primary Website | Location | Paid Circulation ⁽¹⁾ | |
|---|----------------------|--|---------------------------------|----------------------|
| | | | Daily ⁽²⁾ | Sunday |
| <i>St. Louis Post-Dispatch</i> | stltoday.com | St. Louis, MO | 213,472 | 401,427 |
| <i>Arizona Daily Star</i> ⁽³⁾ | azstarnet.com | Tucson, AZ | 93,770 | 135,432 |
| Capital Newspapers ⁽⁴⁾ | | | | |
| <i>Wisconsin State Journal</i> | madison.com | Madison, WI | 92,213 | 130,179 |
| <i>Daily Citizen</i> | wiscnews.com/bdc | Beaver Dam, WI | 9,439 | - |
| <i>Portage Daily Register</i> | wiscnews.com/pdr | Portage, WI | 4,679 | - |
| <i>Baraboo News Republic</i> | wiscnews.com/bnr | Baraboo, WI | 4,074 | - |
| <i>The Times</i> | nwitimes.com | Munster, Valparaiso, and Crown Point, IN | 83,680 | 91,971 |
| Lincoln Group | | | | |
| <i>Lincoln Journal Star</i> | journalstar.com | Lincoln, NE | 72,132 | 76,778 |
| <i>Columbus Telegram</i> | columbustelegram.com | Columbus, NE | 8,270 | 9,222 |
| <i>Fremont Tribune</i> | fremonttribune.com | Fremont, NE | 7,463 | - |
| <i>Beatrice Daily Sun</i> | beatricedailysun.com | Beatrice, NE | 6,624 | - |
| <i>North County Times and the Californian</i> | nctimes.com | Escondido and Temecula, CA | 69,559 | 71,092 |
| Quad-Cities Group | | | | |
| <i>Quad-City Times</i> | qctimes.com | Davenport, IA | 50,373 | 65,415 |
| <i>Muscatine Journal</i> | muscatinejournal.com | Muscatine, IA | 6,349 | - |
| <i>The Pantagraph</i> | pantagraph.com | Bloomington, IL | 41,957 | 44,690 |
| <i>Billings Gazette</i> | billingsgazette.com | Billings, MT | 40,989 | 48,814 |
| <i>The Courier</i> | wfcourier.com | Waterloo and Cedar Falls, IA | 39,229 | 48,008 |
| <i>Sioux City Journal</i> | siouxcityjournal.com | Sioux City, IA | 36,164 | 37,835 |
| Central Illinois Newspaper Group | | | | |
| <i>Herald & Review</i> | herald-review.com | Decatur, IL | 30,263 | 45,866 |
| <i>Journal Gazette</i> | jg-tc.com | Mattoon, IL | 8,846 | - |
| <i>Times-Courier</i> | jg-tc.com | Charleston, IL | 5,495 | - |
| <i>The Post-Star</i> | poststar.com | Glens Falls, NY | 29,968 | 32,545 |
| River Valley Newspaper Group | | | | |
| <i>La Crosse Tribune</i> | lacrossetribune.com | La Crosse, WI | 27,890 | 36,254 |
| <i>Winona Daily News</i> | winonadailynews.com | Winona, MN | 9,801 | 10,520 |
| <i>The Chippewa Herald</i> | chippewa.com | Chippewa Falls, WI | 5,936 | 6,132 ⁽⁵⁾ |
| <i>The Daily Herald</i> | heraldextra.com | Provo, UT | 27,780 | 40,876 |
| Missoula Group | | | | |
| <i>Missoulian</i> | missoulian.com | Missoula, MT | 27,584 | 30,992 |
| <i>Ravalli Republic</i> | ravallinews.com | Hamilton, MT | 4,820 | - ⁽⁶⁾ |
| <i>The Southern Illinoian</i> | thesouthern.com | Carbondale, IL | 27,241 | 35,268 |
| <i>The Journal Times</i> | journaltimes.com | Racine, WI | 27,134 | 29,424 |
| <i>The Bismarck Tribune</i> | bismarcktribune.com | Bismarck, ND | 26,157 | 29,861 |

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|------------------------------|----------------------|----------------|--------|--------|
| <i>Rapid City Journal</i> | rapidcityjournal.com | Rapid City, SD | 26,156 | 31,004 |
| <i>Casper Star-Tribune</i> | trib.com | Casper, WY | 25,490 | 28,455 |
| Magic Valley Group | | | | |
| <i>The Times-News</i> | magicvalley.com | Twin Falls, ID | 20,029 | 20,875 |
| <i>Elko Daily Free Press</i> | elkodaily.com | Elko, NV | 5,613 | (6) - |
| <i>The Daily News</i> | tdn.com | Longview, WA | 19,709 | 19,754 |

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| Newspaper | Primary Website | Location | Paid Circulation ⁽¹⁾ | |
|---------------------------------|------------------------|-----------------|---------------------------------|----------------------|
| | | | Daily ⁽²⁾ | Sunday |
| Central Coast Newspapers | | | | |
| <i>Santa Maria Times</i> | santamariatimes.com | Santa Maria, CA | 16,451 | 15,465 |
| <i>The Lompoc Record</i> | lompocrecord.com | Lompoc, CA | 4,793 | 4,672 ⁽⁷⁾ |
| Mid-Valley News Group | | | | |
| <i>Albany Democrat-Herald</i> | democratherald.com | Albany, OR | 16,068 | 16,942 |
| <i>Corvallis Gazette-Times</i> | gazettetimes.com | Corvallis, OR | 12,081 | 11,973 |
| <i>Globe Gazette</i> | globegazette.com | Mason City, IA | 15,973 | 20,702 |
| <i>The Times and Democrat</i> | thetandd.com | Orangeburg, SC | 14,899 | 14,474 |
| <i>Napa Valley Register</i> | napavalleyregister.com | Napa, CA | 14,130 | 13,914 |
| <i>Independent Record</i> | helenair.com | Helena, MT | 13,616 | 14,454 |
| <i>The Montana Standard</i> | mtstandard.com | Butte, MT | 13,178 | 13,360 |
| <i>The Sentinel</i> | cumberlink.com | Carlisle, PA | 12,939 | 14,621 |
| <i>The World</i> | theworldlink.com | Coos Bay, OR | 10,948 | - |
| <i>Arizona Daily Sun</i> | azdailysun.com | Flagstaff, AZ | 10,720 | 11,323 |
| <i>The Sentinel</i> | hanfordsentinel.com | Hanford, CA | 10,434 | 9,680 |
| <i>The Citizen</i> | auburnpub.com | Auburn, NY | 9,821 | 11,929 |
| <i>The Garden Island</i> | kauaiworld.com | Lihue, HI | 9,494 | 8,566 |
| <i>The Ledger Independent</i> | maysville-online.com | Maysville, KY | 7,675 | - |
| <i>Daily Journal</i> | dailyjournalonline.com | Park Hills, MO | 6,915 | 7,279 |
| | | | 1,436,483 | 1,748,043 |

(1) Source: ABC: Six months ended September 2009, unless otherwise noted.

(2) Daily amounts are Monday - Saturday, unless otherwise noted.

(3) Owned by Star Publishing but published through TNI.

(4) Owned by MNI.

(5) Daily amounts are Monday - Thursday.

(6) Source: Company statistics.

(7) Daily amounts are Tuesday - Friday.

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COMMERCIAL PRINTING

The Company offers commercial printing services through the following entities:

| | Location |
|---|---------------|
| Selma Enterprises | Selma, CA |
| William Street Press | Decatur, IL |
| Hawkeye Printing and Trico Communications | Davenport, IA |
| Platen Press | Butte, MT |
| Farcountry Press | Helena, MT |
| Journal Star Commercial Printing | Lincoln, NE |
| Plaindealer Publishing | Tekamah, NE |
| Wingra Printing ⁽¹⁾ | Madison, WI |

(1) Owned by MNI.

Certain of the Company's newspapers also directly provide commercial printing services. Commercial printing business is highly competitive and generally has lower operating margins than newspapers.

NEWSPRINT

The basic raw material of newspapers, and classified and specialty publications, is newsprint. The Company and its subsidiaries purchase newsprint from U.S. and Canadian producers. The Company believes it will continue to receive a supply of newsprint adequate for its needs and considers its relationships with newsprint producers to be good. Newsprint prices are volatile and fluctuate based upon factors that include foreign currency exchange rates and both foreign and domestic production capacity and consumption. Between September 2008 and September 2009, the FOEX 30-pound newsprint price index declined 37.7% overall, but rose early in 2009. Price fluctuations can have a significant effect on the results of operations. The Company has not entered into derivative contracts for newsprint. For the quantitative impacts of these fluctuations, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk", included herein.

Table of Contents**EXECUTIVE TEAM**

The following table lists executive team members of the Company as of November 30, 2009:

| Name | Age | Service with the Company | Named to Current Position | Current Position |
|---------------------|-----|--------------------------------|---------------------------------|--|
| Mary E. Junck | 62 | June 1999 | January 2002 | Chairman, President and Chief Executive Officer |
| Joyce L. Dehli | 51 | August 1987 | February 2006 | Vice President News |
| Paul M. Farrell | 53 | May 2007 | May 2007 | Vice President Sales & Marketing |
| Suzanna M. Frank | 39 | December 2003 | March 2008 | Vice President Audience |
| Karen J. Guest | 56 | July 2006 | July 2006 | Vice President Law and Chief Legal Officer |
| Michael R. Gullede | 49 | October 1982 | May 2005 | Vice President Publishing |
| Daniel K. Hayes | 64 | September 1969 | September 2005 | Vice President Corporate Communications |
| Brian E. Kardell | 46 | January 1991 | August 2003 | Vice President Production and Chief Information Officer |
| Vytenis P. Kuraitis | 61 | August 1994 | January 1997 | Vice President Human Resources |
| Kevin D. Mowbray | 47 | September 1986 | November 2004 | Vice President Publishing |
| Gregory P. Schermer | 55 | February 1989 | November 1997 | Vice President Interactive Media |
| Carl G. Schmidt | 53 | May 2001 | May 2001 | Vice President, Chief Financial Officer and Treasurer |
| Greg R. Veon | 57 | April 1976 | November 1999 | Vice President Publishing |

Mary E. Junck was elected Chairman, President and Chief Executive Officer in 2002. From 2001 to 2002 she served as President and Chief Executive Officer. From 2000 to 2001 she served as President and Chief Operating Officer. From 1999 to 2000 she served as Executive Vice President and Chief Operating Officer.

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Joyce L. Dehli was appointed Vice President News in February 2006. From April 2005 to February 2006, she served as Director of Editorial Development. From October 2004 to April 2005 she served as Editorial Training Manager. From 2003 to October 2004 she served as Managing Editor of the *Wisconsin State Journal*.

Paul M. Farrell was appointed Vice President Sales & Marketing in May 2007. From 2004 to May 2007 he served as Senior Vice President of The Providence Journal Co., a subsidiary of A.H. Belo Corp. From 1999 to 2004 he served as Advertising Director of *The Boston Globe*, a division of the New York Times Company.

Suzanna M. Frank was appointed Vice President Audience in March 2008. From 2003 to March 2008 she served as Director of Research and Marketing. From 2001 to 2003 she served as Market Research Manager for the *San Diego Union-Tribune*.

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Karen J. Guest was appointed Vice President Law and Chief Legal Officer in July 2006. From 2003 until July 2006, she served as General Counsel to PAJ, Inc.

Michael R. Gulledge was elected a Vice President Publishing in May 2005 and named Publisher of the *Billings Gazette* in 2000. From 2002 to May 2005 he served as a Group Publisher.

Daniel K. Hayes was appointed Vice President Corporate Communications in September 2005. From 1998 to September 2005 he served as Director of Communications.

Brian E. Kardell was appointed Vice President Production and Chief Information Officer in 2003.

Vytenis P. Kuraitis was elected Vice President Human Resources in 1997.

Kevin D. Mowbray was elected a Vice President Publishing in November 2004 and named Publisher of the *St. Louis Post-Dispatch* in May 2006. From November 2004 to May 2006 he served as Publisher of *The Times*. From 2002 to November 2004 he served as Vice President Sales & Marketing.

Gregory P. Schermer was elected Vice President Interactive Media in 1997. He was elected to the Board of Directors of the Company in 1999. From 1989 to July 2006, he also served as Corporate Counsel of the Company.

Carl G. Schmidt was elected Vice President, Chief Financial Officer and Treasurer in 2001.

Greg R. Veon was elected a Vice President Publishing in 1999.

EMPLOYEES

At September 27, 2009, the Company had approximately 7,200 employees, including approximately 1,800 part-time employees, exclusive of MNI and TNI. Full-time equivalent employees at September 27, 2009, totaled approximately 6,400. The Company considers its relationships with its employees to be good.

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Bargaining unit employees represent 574, or 67%, of the total employees of the *St. Louis Post-Dispatch*. The *St. Louis Post-Dispatch* has contracts with bargaining unit employees with expiration dates through 2012. New contracts were reached with various units in the last several years: the Graphic Communications Conference/IBT Local 38N (81 press operators) was signed in 2006 and expires in 2012; the International Association of Machinists and Aerospace Workers, District No. 9 (9 machinists), was signed in 2008 and expires in 2011; the International Association of Machinists and Aerospace Workers, District No. 9 (6 electricians), was signed in 2008 and expires in 2011; the Communication Workers of America AFL-CIO Local 14620 (206 mailers), was signed in 2004 and expires in 2011; Miscellaneous Drivers, Helpers, and Healthcare and Public Employee Union 610 (11 dock employees), was signed in 1997 and expires in 2010, and the St. Louis Typographical Union No. 8/CWA 14616, (7 employees) was signed in 2009 and expires in 2012. Additionally, the union representing the paperhandlers, Graphic Communications International Union Local 16H, disclaimed interest in the unit (30 part time employees) in 2008. All *St. Louis Post-Dispatch* labor contracts contain no-strike clauses.

The contract for the St. Louis Newspaper Guild, Local 36047 (Guild), representing 254 employees expired in June 2009 and is currently in negotiations. Terms of the expired Guild contract remain in effect until the negotiations are completed or declared to be at an impasse. If an impasse is declared, certain changes to terms of the expired contract requested by management in the negotiations can be implemented by the Company and, at that time, the no-strike condition of the expired contract would no longer be applicable.

Approximately 87 employees in six additional locations are represented by collective bargaining units. Contracts at two of these locations have expired and negotiations are ongoing.

In December 2008, employees of selected departments of *The Pantagraph*, in an election conducted by the National Labor Relations Board, overwhelmingly rejected an organization attempt by the Guild.

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CORPORATE GOVERNANCE AND PUBLIC INFORMATION

The Company has a long, substantial history of progressive corporate governance practices. The Board of Directors has a lead independent director, and has had one for many years. Currently, eight of ten members of the Board of Directors are independent, as are all members of the Board's Audit, Executive Compensation and Nominating and Corporate Governance committees. The Audit Committee approves all services to be provided by the Company's independent registered public accounting firm and its affiliates.

At www.lee.net, one may access a wide variety of information, including news releases, Securities and Exchange Commission filings, financial statistics, annual reports, investor presentations, governance documents, newspaper profiles and online links. The Company makes available via its website all filings made by the Company under the Securities Exchange Act of 1934, including Forms 10-K, 10-Q and 8-K, and related amendments, as soon as reasonably practicable after they are filed with, or furnished to, the SEC. All such filings are available free of charge. The content of any website referred to in this Form 10-K is not incorporated by reference into this Form 10-K unless expressly noted.

OTHER MATTERS

In the opinion of management, compliance with present statutory and regulatory requirements respecting environmental quality will not necessitate significant capital outlays, materially affect the earnings of the Company, or cause material changes in the Company's business, whether present or intended. The United States Congress is currently considering significant, additional environmental legislation related to carbon emissions. The impact of such legislation, if and when enacted into law, cannot be determined at this time.

ITEM 1A. RISK FACTORS

Risk exists that the Company's past results may not be indicative of future results. A discussion of certain of the most significant of these risks follows. See also, "Forward-Looking Statements", included herein. In addition, a number of other factors (those identified elsewhere in this document and others, both known and unknown) may cause actual results to differ materially from expectations.

DEBT AND LIQUIDITY

The Company has a substantial amount of debt, as more fully discussed (and certain capitalized terms used below defined) in Item 7, "Liquidity and Capital Resources" and Note 7 of the Notes to Consolidated Financial Statements, included herein. In February 2009, the Company completed a comprehensive restructuring of its Credit Agreement and a refinancing of its Pulitzer Notes debt, substantially enhancing its liquidity and operating flexibility until April 2012. The Company disclosed in its 2008 Annual Report on Form 10-K, in part, that the ability to extend or refinance the Pulitzer Notes as they become due and to delay the acceleration of debt maturities upon the expiration of existing waivers of default under both the Credit Agreement and the Pulitzer Notes, were factors that raised significant uncertainty about the Company's ability to continue as a going concern. The restructuring of the Credit Agreement and refinancing of the Pulitzer Notes resolved these issues.

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The Company expects to utilize a portion of its capacity under its revolving credit facility to fund part of 2010 principal payments required under the Credit Agreement. At September 27, 2009, the Company had \$275,450,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, has approximately \$83,000,000 available for future use. Including cash and restricted cash, the Company's liquidity at September 27, 2009 totals \$99,900,000. This liquidity amount excludes any future cash flows. Mandatory principal payments on debt in 2010 total \$89,800,000. The Company expects all 2010 interest payments and a substantial amount of principal payments due in 2010 will be satisfied by the Company's continuing cash flows.

The Company's ability to operate as a going concern is dependent on its ability to remain in compliance with debt covenants and to refinance or amend its debt agreements as they become due, or earlier if available liquidity is consumed. The Company is in compliance with its debt covenants at September 27, 2009.

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There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an Event of Default occurs and is not remedied. Many of those consequences are beyond the control of the Company, Pulitzer, and PD LLC, respectively. The occurrence of one or more Events of Default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

The 2010 Redemption, as more fully discussed in Note 19 of the Notes to Consolidated Financial Statements, included herein, eliminated the potential requirement for a substantial cash outflow in April 2010. This event also substantially enhanced the Company's liquidity.

As of November 30, 2009, the full amount of the outstanding balance under the Credit Agreement is subject to floating interest rates as all interest rate swaps and collars expired or were terminated. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, and Item 7A, Interest Rates, included herein, for additional information on the risks associated with the Company's financing arrangements.

ECONOMIC CONDITIONS

According to the National Bureau of Economic Research, the United States economy entered a recession in the three months ended December 2007 and it is widely believed that certain elements of the economy, such as housing, were in decline before that time. 2009 and 2008 revenue, operating results and cash flows were significantly impacted by the recession. United States gross domestic product increased in the three months ended September 2009, potentially signaling the end of the current recession. The duration and depth of an economic recession in markets in which the Company operates may further reduce its future advertising and circulation revenue, operating results and cash flows.

OPERATING REVENUE

A significant portion of the Company's revenue is derived from advertising. The demand for advertising is sensitive to the overall level of economic activity, both nationally and locally.

Operating revenue in most categories decreased in 2009 and 2008 and may decrease in the future. Such decreases may not be offset by growth in advertising in other categories, such as online revenue which, until 2008, had been rising significantly. There can also be no assurance such online growth will resume. Historically, newspaper publishing has been viewed as a cost-effective method of delivering various forms of advertising. There can be no guarantee that this historical perception will guide future decisions on the part of advertisers. To the extent that advertisers shift advertising expenditures to other media outlets, including those on the Internet, the profitability of the Company's business may continue to be impacted.

The rates the Company charges for advertising are, in part, related to the size of the audience of its publications and websites. There is significant competition for readers and viewers from other media. The Company's business may be adversely affected to the extent individuals decide to obtain news, entertainment, classified listings and local shopping information from Internet-based or other media, to the exclusion of the Company's outlets for such information.

Retail Advertising

Many advertisers, including major retail store chains, automobile manufacturers and dealers, banks and telecommunications companies, have experienced significant merger and acquisition activity over the last several years, and some have gone out of business, effectively reducing the number of brand names under which the merged entities operate. The Company's retail revenue is also being impacted by the current economic environment. For example, a decline in the housing market negatively impacts retail advertising related to home improvement, furniture and home electronics.

Classified Advertising

Classified advertising is the category that has been most significantly impacted by the current economic environment. In 2008, as the recession accelerated, employment classified advertising, including both print and online, declined as unemployment increased. This trend continued in 2009.

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In 2009, 2008 and 2007, real estate classified advertising also suffered declines due primarily to cyclical issues, such as declining sale prices and an increase in unsold homes, affecting the residential real estate market nationally. In 2009 this decline accelerated due to the access to, and limitations on, residential mortgage funding.

Automotive classified advertising revenue declined in 2009, 2008 and 2007, due to industry-wide issues affecting certain domestic auto manufacturers and the overall decline in economic conditions leading to the current recession.

See Item 1, Advertising, included herein, for additional information on the risks associated with advertising revenue.

Circulation

Though the Company's overall audience is growing, and its circulation unit results have outperformed the industry, circulation unit sales have nonetheless been declining fractionally for several years. The possibility exists that future circulation price increases may be delayed or reduced as a result of future declines in circulation unit sales, and that price decreases may be necessary to retain or grow circulation unit volume. The Company is reaching increasingly larger audiences through stable newspaper readership and rapid online audience growth. Nonetheless, declines in circulation unit sales could also adversely impact advertising revenue.

See Item 1, Audiences, included herein, for additional information on the risks associated with circulation revenue.

OPERATING EXPENSES

The Company reduced operating expenses, excluding depreciation, amortization, impairment charges and other unusual costs, by \$150,033,000, or 18.3%, in 2009, by \$26,995,000, or 3.2% in 2008 and expects to reduce such operating expenses by an additional 6-7% in 2010. Such expense reductions are not expected to significantly impact the Company's ability to deliver advertising and content to its customers.

The results of future labor negotiations could affect the Company's operating results. For additional information concerning the Company's labor relations, see Item 1, Employees, included herein.

Newsprint comprises a significant amount of the Company's operating costs. See Item 1, Newsprint and Item 7A, Commodities included herein, for additional information on the risks associated with changes in newsprint costs.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has significant amounts of goodwill and identified intangible assets. In 2009 and 2008, the Company recorded substantial impairment charges to reduce the value of certain of these assets. Should general economic, market or business conditions continue to decline, and have a negative impact on the Company's stock price or cash flows, the Company may be required to record additional impairment charges in the future. See Item 7, "Critical Accounting Policies", included herein, for additional information on the risks associated with such assets.

EQUITY CAPITAL

As of December 24, 2008, the Company's Common Stock traded at an average 30-day closing market price of less than \$1 per share. Under the NYSE listing standards, if the Company's Common Stock fails to maintain an adequate per share price and total market capitalization, the Company's Common Stock could be removed from the NYSE and traded in the over the counter market. In December 2008, the NYSE notified the Company that it did not meet the NYSE continued listing standard due to its failure to maintain an adequate share price. Subsequent to that date, the NYSE temporarily suspended the standard through July 2009, and extended Lee's six-month cure period until December 2009. In

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September 2009, the NYSE notified Lee that its average share price had risen sufficiently to cure the share price deficiency. As of November 30, 2009, the Company's Common Stock traded at an average 30-day closing market price of \$3.64 per share and its equity market capitalization totaled approximately \$162,000,000. All of these factors, along with volatile equity market conditions, could limit the Company's ability to raise new equity capital in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's executive offices are located in leased facilities at 201 North Harrison Street, Suite 600, Davenport, Iowa. The lease expires in 2019.

All of the Company's principal printing facilities except Madison, Wisconsin (which is owned by MNI), Tucson (which is jointly owned by Star Publishing and Citizen), St. Louis (as described below) and leased land for the Helena, Montana and Lihue, Hawaii plants, are owned. All facilities are well maintained, in good condition, suitable for existing office and publishing operations, as applicable, and adequately equipped. With the exception of St. Louis, none of the Company's facilities is individually significant to its business.

Information related to St. Louis facilities at September 27, 2009 is as follows:

| <i>(Square Feet)</i> | Owned | Leased |
|----------------------|---------|--------|
| PD LLC | 755,000 | 23,000 |
| Suburban Journals | 89,000 | 39,000 |

Several of the Company's daily newspapers, as well as many of the Company's and MNI's nearly 300 other publications, are printed at other Company facilities, or such printing is outsourced, to enhance operating efficiency. The Company is continuing to evaluate additional insourcing and outsourcing opportunities in order to more effectively manage its operating and capital costs.

The Company's newspapers and other publications have formal or informal backup arrangements for printing in the event of a disruption in production capability.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in a variety of legal actions that arise in the normal course of business. Insurance coverage mitigates potential loss for certain of these matters. While the Company is unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters will not have a material adverse effect on the Company's Consolidated Financial Statements, taken as a whole.

In 2008, a group of newspaper carriers filed suit against the Company in the United States District Court for the Southern District of California, claiming to be employees and not independent contractors of the Company. The plaintiffs seek relief related to violation of various employment-based statutes, and request punitive damages and attorneys' fees. The suit is in the discovery stage and an initial decision by the judge regarding class certification is expected in 2010. At this time the Company is unable to predict whether the ultimate economic outcome, if any, could have a material effect on the Company's Consolidated Financial Statements, taken as a whole. The Company denies the allegations of employee status, consistent with past practices of the Company and the industry, and intends to vigorously contest the action, which is not covered by insurance.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the 13 weeks ended September 27, 2009.

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**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK,
RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Common Stock of the Company is listed on the NYSE. Class B Common Stock is not traded on an exchange but is readily convertible to Common Stock. Class B Common Stock was issued to stockholders of record of the Company in 1986 pursuant to a 100% stock dividend and is converted at sale, or at the option of the holder, into Common Stock. The table below includes the high and low prices of Common Stock for each calendar quarter during the past three years, the closing price at the end of each quarter and dividends per common share.

| | December | March | Quarter Ended June | September |
|---------------------|----------|----------|-----------------------|-----------|
| STOCK PRICES | | | | |
| 2009 | | | | |
| High | \$ 3.97 | \$ 0.65 | \$ 1.89 | \$ 3.43 |
| Low | 0.30 | 0.24 | 0.29 | 0.50 |
| Closing | 0.41 | 0.28 | 0.53 | 2.75 |
| 2008 | | | | |
| High | \$ 17.96 | \$ 14.91 | \$ 11.32 | \$ 5.00 |
| Low | 13.61 | 9.26 | 4.21 | 2.22 |
| Closing | 14.53 | 10.76 | 4.40 | 3.35 |
| 2007 | | | | |
| High | \$ 32.13 | \$ 35.65 | \$ 30.92 | \$ 21.48 |
| Low | 24.55 | 29.48 | 20.50 | 14.58 |
| Closing | 31.06 | 30.05 | 20.86 | 15.57 |
| DIVIDENDS | | | | |
| 2008 | \$ 0.19 | \$ 0.19 | \$ 0.19 | \$ 0.19 |
| 2007 | 0.18 | 0.18 | 0.18 | 0.18 |

Common Stock and Class B Common Stock have identical rights with respect to cash dividends and upon liquidation. For a more complete description of the relative rights of Common Stock and Class B Common Stock, including conversion provisions of Class B Common Stock, see Note 12 of the Notes to Consolidated Financial Statements, included herein.

At September 27, 2009, the Company had 6,999 holders of Common Stock and 1,226 holders of Class B Common Stock.

In 2008, 1,722,280 shares were acquired and returned to authorized shares at an average price of \$10.98.

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The 2009 Amendments to the Company's Credit Agreement require the Company to suspend stockholder dividends and share repurchases through April 2012. See Note 7 of the Notes to Consolidated Financial Statements, included herein.

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The following graph compares the quarterly percentage change in the cumulative total return of the Company, the Standard & Poor's (S&P) 500 Stock Index, and a Peer Group Index, in each case for the five years ended September 30, 2009 (with September 30, 2004 as the measurement point). Total return is measured by dividing (a) the sum of (i) the cumulative amount of dividends declared for the measurement period, assuming dividend reinvestment and (ii) the difference between the issuer's share price at the end and the beginning of the measurement period, by (b) the share price at the beginning of the measurement period.

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The value of \$100 invested on September 30, 2004 in stock of the Company, the Peer Group and in the S&P 500 Stock Index, including reinvestment of dividends, is summarized in the table below.

| | 2004 | 2005 | September 30 | | 2008 | 2009 |
|-------------------------------|-----------|----------|--------------|----------|---------|---------|
| | | | 2006 | 2007 | | |
| Lee Enterprises, Incorporated | \$ 100.00 | \$ 93.16 | \$ 56.66 | \$ 35.98 | \$ 9.02 | \$ 7.09 |
| Peer Group Index | 100.00 | 87.32 | 74.83 | 63.20 | 41.14 | 32.06 |
| S&P 500 Stock Index | 100.00 | 112.25 | 124.37 | 144.81 | 112.99 | 105.18 |

The S&P 500 Stock Index includes 500 U.S. companies in the industrial, transportation, utilities and financial sectors and is weighted by market capitalization. The Peer Group Index is comprised of nine U.S. publicly traded companies with significant newspaper publishing operations (excluding the Company) and is weighted by market capitalization. The Peer Group Index includes A.H. Belo Corp., Gannett, Journal Communications, Inc., The McClatchy Company, Media General, Inc., The New York Times Company, The E.W. Scripps Company, Sun-Times Media Group, Inc., and The Washington Post Company. Journal Register Company, which was previously included in the Peer Group Index, is no longer publicly traded.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

Selected financial data is as follows:

| <i>(Thousands, Except Per Common Share Data)</i> | 2009 | 2008 | 2007 | 2006 | 2005 (1) |
|---|--------------|--------------|--------------|--------------|-------------|
| OPERATING RESULTS (2) | | | | | |
| Operating revenue | \$ 842,030 | \$ 1,028,868 | \$ 1,120,194 | \$ 1,121,390 | \$ 816,614 |
| Operating expenses, excluding depreciation, amortization, and impairment of goodwill and other assets | 675,035 | 821,846 | 849,644 | 843,577 | 612,425 |
| Depreciation and amortization | 79,599 | 91,078 | 92,700 | 90,276 | 58,958 |
| Impairment of goodwill and other assets (3) | 245,953 | 1,070,808 | - | 4,837 | - |
| Equity in earnings of associated companies | 5,120 | 10,211 | 20,124 | 20,739 | 12,784 |
| Reduction in investment in TNI (3) | 19,951 | 104,478 | - | - | - |
| Operating income (loss) | (173,388) | (1,049,131) | 197,974 | 203,439 | 158,015 |
| Financial income | 1,886 | 5,857 | 7,613 | 6,054 | 2,824 |
| Financial expense | (92,892) | (71,472) | (90,341) | (95,939) | (38,038) |
| Income (loss) from continuing operations | \$ (180,241) | \$ (871,763) | \$ 80,328 | \$ 70,778 | \$ 70,681 |
| Discontinued operations | (5) | 285 | 671 | 54 | 6,197 |
| Net income (loss) | \$ (180,246) | \$ (871,478) | \$ 80,999 | \$ 70,832 | \$ 76,878 |
| Income (loss) available to common stockholders | \$ (123,191) | \$ (880,316) | \$ 80,999 | \$ 70,832 | \$ 76,878 |
| EARNINGS (LOSS) PER COMMON SHARE | | | | | |
| Basic: | | | | | |
| Continuing operations | \$ (2.77) | \$ (19.65) | \$ 1.76 | \$ 1.56 | \$ 1.57 |
| Discontinued operations | - | 0.01 | 0.01 | - | 0.14 |
| | \$ (2.77) | \$ (19.64) | \$ 1.77 | \$ 1.56 | \$ 1.70 |
| Diluted: | | | | | |
| Continuing operations | \$ (2.77) | \$ (19.65) | \$ 1.75 | \$ 1.55 | \$ 1.56 |
| Discontinued operations | - | 0.01 | 0.01 | - | 0.14 |
| | \$ (2.77) | \$ (19.64) | \$ 1.77 | \$ 1.56 | \$ 1.70 |
| Weighted average common shares: | | | | | |
| Basic | 44,442 | 44,813 | 45,671 | 45,421 | 45,118 |
| Diluted | 44,442 | 44,813 | 45,804 | 45,546 | 45,348 |
| Dividends per common share | \$ - | \$ 0.76 | \$ 0.72 | \$ 0.72 | \$ 0.72 |

BALANCE SHEET INFORMATION (End of Year)

| | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| Total assets | \$ 1,515,612 | \$ 2,016,367 | \$ 3,260,963 | \$ 3,329,809 | \$ 3,445,200 |
| Debt, including current maturities (4) | 1,168,335 | 1,332,375 | 1,395,625 | 1,525,000 | 1,688,000 |
| Debt, net of cash, restricted cash and investments (4) | 1,151,106 | 1,182,856 | 1,284,565 | 1,420,302 | 1,599,397 |
| Stockholders' equity | 23,598 | 155,518 | 1,086,442 | 990,625 | 936,410 |

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(1) Includes four months of operations of Pulitzer, which was acquired in June 2005.

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- (2) Results of discontinued operations have been restated for all periods presented.
 (3) The Company recorded pretax, non-cash impairment charges to reduce the carrying value of assets as follows:

| <i>(Thousands)</i> | 2009 | 2008 | 2006 |
|--------------------------------|------------|--------------|----------|
| Goodwill | \$ 193,471 | \$ 908,977 | \$ - |
| Nonamortized intangible assets | 14,055 | 13,027 | 4,837 |
| Amortizable intangible assets | 33,848 | 143,785 | - |
| Property and equipment | 4,579 | 5,019 | - |
| | 245,953 | 1,070,808 | 4,837 |
| Reduction in investment in TNI | 19,951 | 104,478 | - |
| | \$ 265,904 | \$ 1,175,286 | \$ 4,837 |

- (4) Principal amount, excluding fair value adjustments. See Note 7 of the Notes to Consolidated Financial Statements, included herein.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
 FINANCIAL CONDITION AND RESULTS OF OPERATION**

The following discussion includes comments and analysis relating to the Company's results of operations and financial condition as of, and for each of the three years ended, September 2009. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes thereto, included herein.

NON-GAAP FINANCIAL MEASURES

No non-GAAP financial measure should be considered as a substitute for any related financial measure under accounting principles generally accepted in the United States of America (GAAP). However, the Company believes the use of non-GAAP financial measures provides meaningful supplemental information with which to evaluate its financial performance, or assist in forecasting and analyzing future periods. The Company also believes such non-GAAP financial measures are alternative indicators of performance used by investors, lenders, rating agencies and financial analysts to estimate the value of a publishing business or its ability to meet debt service requirements.

Operating Cash Flow and Operating Cash Flow Margin

Operating cash flow, which is defined as operating income before depreciation, amortization, impairment of goodwill and other assets and equity in earnings of associated companies, and operating cash flow margin (operating cash flow divided by operating revenue) represent non-GAAP financial measures that are used in the analysis below. The Company believes these measures provide meaningful supplemental information because of their focus on results from operations excluding such non-cash factors.

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Reconciliations of operating cash flow and operating cash flow margin to operating income (loss) and operating income (loss) margin, the most directly comparable measures under GAAP, are included in the table below:

| <i>(Thousands)</i> | 2009 | Percent of Revenue | 2008 | Percent of Revenue | 2007 | Percent of Revenue |
|---|--------------|-----------------------|----------------|-----------------------|------------|-----------------------|
| Operating cash flow | \$ 166,995 | 19.8% | \$ 207,022 | 20.1% | \$ 270,550 | 24.2% |
| Less depreciation and amortization | (79,599) | 9.5 | (91,078) | 8.9 | (92,700) | 8.3 |
| Less impairment of goodwill and other assets | (245,953) | NM | (1,070,808) | NM | - | - |
| Plus equity in earnings of associated companies | 5,120 | 0.6 | 10,211 | 1.0 | 20,124 | 1.8 |
| Less reduction in investment in TNI | (19,951) | NM | (104,478) | NM | - | - |
| Operating income (loss) | \$ (173,388) | NM | \$ (1,049,131) | NM | \$ 197,974 | 17.7% |

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Adjusted Net Income and Adjusted Earnings Per Common Share

Adjusted net income and adjusted earnings per common share, which are defined as income (loss) available to common stockholders and earnings (loss) per common share adjusted to exclude unusual matters and those of a substantially non-recurring nature, are non-GAAP financial measures that are used in the analysis below. The Company believes these measures provide meaningful supplemental information by identifying matters that are not indicative of core business operating results or are of a substantially non-recurring nature.

Reconciliations of adjusted net income and adjusted earnings (loss) per common share to income (loss) available to common stockholders and earnings (loss) per common share, respectively, the most directly comparable measures under GAAP, are set forth below under the caption Overall Results .

SAME PROPERTY COMPARISONS

Certain information below, as noted, is presented on a same property basis, which is exclusive of acquisitions and divestitures consummated in the current or prior year. The Company believes such comparisons provide meaningful supplemental information for an understanding of changes in its revenue and operating expenses. Same property comparisons exclude TNI and MNI. The Company owns 50% of TNI and also owns 50% of the capital stock of MNI, both of which are reported using the equity method of accounting. Same property comparisons also exclude corporate office costs.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Additional information follows with regard to certain of the most critical of the Company's accounting policies.

Goodwill and Other Intangible Assets

In assessing the recoverability of its goodwill and other nonamortized intangible assets, the Company makes a determination of the fair value of its business. Fair value is determined using a combination of an income approach, which estimates fair value based upon future revenue, expenses and cash flows discounted to their present value, and a market approach, which estimates fair value using market multiples of various financial measures compared to a set of comparable public companies in the publishing industry. An impairment charge will generally be recognized when the carrying amount of the net assets of the business exceeds its estimated fair value.

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The required valuation methodology and underlying financial information that are used to determine fair value require significant judgments to be made by management. These judgments include, but are not limited to, long term projections of future financial performance and the selection of appropriate discount rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

The Company analyzes its goodwill and other nonamortized intangible assets for impairment on an annual basis, or more frequently if impairment indicators are present. See Note 6 of the Notes to Consolidated Financial Statements, included herein, for a more detailed explanation of the Company's intangible assets. Such indicators of impairment include, but are not limited to, changes in business climate and operating or cash flow losses related to such assets.

Due primarily to the continuing, and (at the time) increasing difference between its stock price and the per share carrying value of its net assets, the Company analyzed the carrying value of its net assets as of

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December 28, 2008 and again as of March 29, 2009. Deterioration in the Company's revenue and the overall recessionary operating environment for the Company and other publishing companies were also factors in the timing of the analyses.

As a result, in 2009 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$193,471,000. The Company also recorded pretax, non-cash charges of \$14,055,000 and \$33,848,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$19,951,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$4,579,000 to reduce the carrying value of property and equipment. The Company recorded \$64,319,000 of income tax benefit related to these charges.

For similar reasons, in 2008 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$908,977,000. The Company also recorded pretax, non-cash charges of \$13,027,000 and \$143,785,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$104,478,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$5,019,000 to reduce the carrying value of property and equipment. The Company recorded \$281,564,000 of income tax benefit related to these charges.

The Company reviews its amortizable intangible assets for impairment when indicators of impairment are present. The Company assesses recoverability of these assets by comparing the estimated undiscounted cash flows associated with the asset or asset group with their carrying amount. The impairment amount, if any, is calculated based on the excess of the carrying amount over the fair value of those assets.

The Company also periodically evaluates its determination of the useful lives of amortizable intangible assets. Any resulting changes in the useful lives of such intangible assets will not impact the cash flows of the Company. However, a decrease in the useful lives of such intangible assets would increase future amortization expense and decrease future reported operating results and earnings per common share.

Based on substantial impairment charges recorded in both 2009 and 2008, and the most recent testing performed, at September 27, 2009, the Company does not believe its reporting unit is at risk of failing future goodwill impairment testing. However, future decreases in the Company's market value, or significant differences in revenue, expenses or cash flows from estimates used to determine market value, could affect this determination.

Pension, Postretirement and Postemployment Benefit Plans

The Company evaluates its liability for pension, postretirement and postemployment benefit plans based upon computations made by consulting actuaries, incorporating estimates and actuarial assumptions of future plan service costs, future interest costs on projected benefit obligations, rates of compensation increases, employee turnover rates, anticipated mortality rates, expected investment returns on plan assets, asset allocation assumptions of plan assets, and other factors. If the Company used different estimates and assumptions regarding these plans, the funded status of the plans could vary significantly, resulting in recognition of different amounts of expense over future periods.

Increases in market interest rates, which may impact plan assumptions, generally result in lower service costs for current employees, higher interest expense and lower liabilities. Actual returns on plan assets that are lower than the plan assumptions will generally result in decreases in a

plan's funded status and may necessitate additional contributions.

Income Taxes

Deferred income taxes are provided using the liability method, whereby deferred income tax assets are recognized for deductible temporary differences and loss carryforwards and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax basis. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are

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adjusted for the effects of changes in tax laws and rates on the date of enactment. Recent changes in accounting for uncertain tax positions can result in additional variability in the Company's effective income tax rate.

The Company files income tax returns with the Internal Revenue Service (IRS) and various state tax jurisdictions. From time to time, the Company is subject to routine audits by those agencies, and those audits may result in proposed adjustments. The Company has considered the alternative interpretations that may be assumed by the various taxing agencies, believes its positions taken regarding its filings are valid, and that adequate tax liabilities have been recorded to resolve such matters. However, the actual outcome cannot be determined with certainty and the difference could be material, either positively or negatively, to the Consolidated Statements of Operations and Comprehensive Income (Loss) in the periods in which such matters are ultimately determined. The Company does not believe the final resolution of such matters will be material to its consolidated financial position or cash flows.

Revenue Recognition

Advertising revenue is recorded when advertisements are placed in the publication or on the related online site. Circulation revenue is recorded as newspapers are distributed over the subscription term. Other revenue is recognized when the related product or service has been delivered. Unearned revenue arises in the ordinary course of business from advance subscription payments for publications or advance payments for advertising.

Uninsured Risks

The Company is self-insured for health care, workers compensation and certain long-term disability costs of its employees, subject to stop loss insurance, which limits exposure to large claims. The Company accrues its estimated health care costs in the period in which such costs are incurred, including an estimate of incurred but not reported claims. Other risks are insured and carry deductible losses of varying amounts.

The Company's accrued reserves for health care and workers compensation claims are based upon estimates of the remaining liability for retained losses made by consulting actuaries. The amount of workers compensation reserve has been determined based upon historical patterns of incurred and paid loss development factors from the insurance industry.

An increasing frequency of large claims, deterioration in overall claim experience or changes in federal or state laws affecting the Company's liability for such claims could increase the volatility of expenses for such self-insured risks.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In 2009, the Financial Accounting Standards Board (FASB) issued Statement 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASC), which became the source of accounting principles to be applied in the

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preparation of financial statements for nongovernmental agencies. ASC is effective for the Company as of September 27, 2009. ASC did not have any impact on the Company's Consolidated Financial Statements since it was not intended to change existing GAAP, except as related to references for authoritative literature.

In 2008, the FASB issued ASC Topic 805, *Business Combinations*, and ASC Topic 810, *Consolidations*. FASB ASC Topic 805 establishes requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interests. For the Company, the provisions of FASB ASC Topic 805 are effective for business combinations occurring in 2010. FASB ASC Topic 810 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of stockholders' equity. FASB ASC Topic 810 is effective for the Company in 2010. The effect of FASB ASC Topic 805 is dependent on future transactions. The effect of FASB ASC Topic 810 will not materially affect the Company's Consolidated Financial Statements.

In 2008, the FASB issued ASC Topic 815, *Derivatives and Hedging*. FASB ASC Topic 815 requires disclosure regarding the objectives and strategies for using derivative instruments and the credit-risk-related features. ASC Topic 815 also requires disclosure of the fair value amounts and the gains and losses on derivative instruments in tabular form. ASC Topic 815 is effective for the Company in 2010.

Table of Contents**CONTINUING OPERATIONS****2009 vs. 2008**

Operating results, as reported in the Consolidated Financial Statements, are summarized below:

| <i>(Thousands, Except Per Common Share Data)</i> | 2009 | 2008 | Percent Change | |
|---|--------------|--------------|----------------|----------|
| | | | Total | Property |
| Advertising revenue: | | | | |
| Retail | \$ 358,104 | \$ 434,069 | (17.5)% | (17.4)% |
| National | 39,047 | 44,143 | (11.5) | (11.5) |
| Classified: | | | | |
| Daily newspapers: | | | | |
| Employment | 26,489 | 59,457 | (55.4) | (55.4) |
| Automotive | 30,465 | 45,388 | (32.9) | (32.9) |
| Real estate | 30,066 | 43,282 | (30.5) | (30.5) |
| All other | 44,635 | 43,006 | 3.8 | 3.8 |
| Other publications | 30,660 | 43,361 | (29.3) | (30.4) |
| Total classified | 162,315 | 234,494 | (30.8) | (31.0) |
| Online | 42,073 | 55,119 | (23.7) | (23.7) |
| Niche publications | 13,135 | 15,874 | (17.3) | (17.3) |
| Total advertising revenue | 614,674 | 783,699 | (21.6) | (21.6) |
| Circulation | 185,154 | 195,457 | (5.3) | (5.3) |
| Commercial printing | 12,895 | 15,993 | (19.4) | (19.4) |
| Online services and other | 29,307 | 33,719 | (13.1) | (13.1) |
| Total operating revenue | 842,030 | 1,028,868 | (18.2) | (18.2) |
| Compensation | 339,014 | 421,652 | (19.6) | (20.2) |
| Newsprint and ink | 72,311 | 103,926 | (30.4) | (25.0) |
| Other operating expenses | 257,060 | 292,840 | (12.2) | (12.1) |
| Workforce adjustments and transition costs | 6,650 | 3,428 | NM | NM |
| | 675,035 | 821,846 | (17.9) | (17.5) |
| Operating cash flow | 166,995 | 207,022 | (19.3) | (20.3) |
| Depreciation and amortization | 79,599 | 91,078 | (12.6) | |
| Impairment of goodwill and other assets | 245,953 | 1,070,808 | NM | |
| Equity in earnings of associated companies | 5,120 | 10,211 | (49.9) | |
| Reduction in investment in TNI | 19,951 | 104,478 | NM | |
| Operating loss | (173,388) | (1,049,131) | NM | |
| Non-operating expense, net | 89,183 | 64,730 | 37.8 | |
| Loss from continuing operations before income taxes | (262,571) | (1,113,861) | NM | |
| Income tax benefit | (82,509) | (242,633) | NM | |
| Minority interest | 179 | 535 | (66.5) | |
| Loss from continuing operations | (180,241) | (871,763) | NM | |
| Discontinued operations, net | (5) | 285 | NM | |
| Net loss | (180,246) | (871,478) | NM | |
| Decrease (increase) in redeemable minority interest | 57,055 | (8,838) | NM | |
| Loss available to common stockholders | \$ (123,191) | \$ (880,316) | NM | |

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| | | | |
|------------------------|----|--------|---------------|
| Loss per common share: | | | |
| Basic | \$ | (2.77) | \$ (19.65) NM |
| Diluted | | (2.77) | (19.65) NM |

In total, acquisitions and divestitures accounted for \$691,000 of operating revenue in 2009 and \$664,000 of operating revenue in 2008.

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Economic Conditions

According to the National Bureau of Economic Research, the United States economy entered a recession in the three months ended December 2007, and it is widely believed that certain elements of the economy, such as housing, were in decline before that time. 2009 and 2008 revenue, operating results and cash flows were significantly impacted by the recession. United States gross domestic product increased in the three months ended September 2009, potentially signaling the end of the current recession. The duration and depth of an economic recession in markets in which the Company operates may further reduce its future advertising and circulation revenue, operating results and cash flows.

Advertising Revenue

In 2009, advertising revenue decreased \$169,025,000, or 21.6%, and same property advertising revenue decreased \$169,062,000, or 21.6%. On a combined basis, same property print and online retail advertising decreased 15.9%. Same property print retail revenue decreased \$75,637,000, or 17.4%, in 2009. A 13.0% decrease in daily newspaper retail advertising lineage also contributed to the overall decrease. Same property average retail rates, excluding preprint insertions, decreased 10.9% in 2009. Retail preprint insertion revenue decreased 11.4%. Online retail advertising increased 6.1%, partially offsetting print declines.

The table below combines print and online advertising revenue and reclassifies certain print retail revenue to classified based on the primary business of the advertiser:

| <i>(Thousands, Same Property)</i> | 2009 | 2008 | Percent Change |
|-----------------------------------|------------|------------|----------------|
| Retail | \$ 369,302 | \$ 439,354 | (15.9)% |
| Classified: | | | |
| Employment | \$ 41,627 | \$ 90,830 | (54.2)% |
| Automotive | 44,885 | 62,938 | (28.7) |
| Real estate | 39,331 | 57,389 | (31.5) |
| Other | 65,715 | 72,177 | (9.0) |
| Total classified revenue | \$ 191,558 | \$ 283,334 | (32.4)% |

On a combined basis, print and online classified revenue decreased 32.4%. Same property print classified advertising revenue decreased \$72,550,000, or 31.0%, in 2009. Higher rate print employment advertising at the daily newspapers decreased 55.4% for the year on a same property basis, reflecting rising unemployment nationally. Same property print automotive advertising decreased 32.9% amid an industry-wide decline. Same property print real estate advertising decreased 30.5% in a weak housing market nationally, which also negatively impacted the home improvement, furniture and home electronics categories of retail revenue. Other daily newspaper print classified advertising increased 3.8% on a same property basis. Same property classified advertising rates decreased 16.9%.

Advertising lineage, as reported on a same property basis for the Company's daily newspapers only, consists of the following:

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| <i>(Thousands of Inches)</i> | 2009 | 2008 | Percent Change |
|------------------------------|--------|--------|----------------|
| Retail | 10,993 | 12,639 | (13.0)% |
| National | 488 | 612 | (20.2) |
| Classified | 11,607 | 14,317 | (18.9) |
| | 23,088 | 27,568 | (16.3)% |

Online advertising revenue decreased 23.7% on a same property basis, due to decreases in online classified sales, partially offset by a 6.1% increase in online retail revenue.

National advertising decreased \$5,096,000, or 11.5%, on a same property basis due to a 20.2% decline in lineage offset by a 9.8% increase in average national rate. Advertising in niche publications decreased 17.3% on a same property basis.

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Despite declines in advertising revenue, the Company's total advertising results have historically benchmarked favorably to industry averages reported by the NAA.

While still negative year over year, revenue results in the month of September 2009 improved. This trend continued in the first two months of 2010. The Company expects revenue to decrease 14-15% in the 13 weeks ending December 27, 2009.

Circulation and Other Revenue

Circulation revenue decreased \$10,303,000, or 5.3% in 2009, and same property circulation revenue decreased \$10,294,000, or 5.3%. The Company's total average daily newspaper circulation units, including TNI and MNI, as measured by the ABC, declined 6.4% for the six months ended September 2009, compared to the same period in the prior year, and Sunday circulation declined 5.8%, significantly outperforming the industry as a whole, which experienced declines of 10.6% daily and 7.4% Sunday. The Company estimates that more than 60% of its unit decline was anticipated, and was due to pricing, distribution reduction and other actions undertaken. For the six months ended March 2009, total average daily circulation units including TNI and MNI, declined 4.6% and Sunday circulation decreased 3.5%, again outperforming the industry. In spite of declines in circulation, Company research in its larger markets indicates it is reaching an increasingly larger audience in these markets through the combination of stable newspaper readership and rapid online growth.

Same property commercial printing revenue decreased \$3,098,000, or 19.4%, in 2009. Same property online services and other revenue decreased \$4,410,000, or 13.1%, in 2009.

Operating Expenses

Costs other than depreciation, amortization, impairment charges and other unusual costs decreased \$150,033,000, or 18.3%, in 2009, and decreased \$142,044,000, or 17.9%, on a same property basis. In total, acquisitions and divestitures accounted for \$642,000 of operating expenses, excluding depreciation and amortization, in 2009 and \$814,000 in 2008.

Compensation expense decreased \$82,638,000, or 19.6%, in 2009 and same property compensation expense decreased 20.2% driven by a decline in same property average full time equivalent employees of 14.8%. Bonus programs and certain other employee benefits were also substantially reduced in 2009.

In October and December 2008, the Company notified certain participants in its postretirement medical plans of administrative changes to be made to the plans, effective in January 2009, including increases in employee premiums, changes in the plans' reimbursement of medical expenses covered by Medicare, elimination of certain coverage options and the establishment of an account based structure. The changes reduced the benefit obligation by approximately \$23,047,000, effective in January 2009.

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Newsprint and ink costs decreased \$31,615,000, or 30.4%, in 2009 due to decreased usage from lower advertising, reduced page sizes and some reduction of content, partially offset by higher average unit prices. Costs decreased 25.0% on a same property basis and volume decreased 31.1% on a same property basis. See Item 7A, "Commodities", included herein, for further discussion and analysis of the impact of commodities on the Company's business.

Other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint, depreciation, amortization, or unusual costs, decreased \$35,780,000, or 12.2%, in 2009 and decreased 12.1% on a same property basis.

Reductions in staffing resulted in workforce adjustment costs totaling \$5,813,000 and \$3,418,000 in 2009 and 2008, respectively.

The Company is engaged in various efforts to continue to reduce its operating expenses in 2010 and beyond. The Company expects its operating expenses, excluding depreciation, amortization and unusual costs (and cost reductions), to decline approximately 17-18% in the 13 weeks ending December 27, 2009 and 6-7% in 2010.

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In December 2009, the Company notified certain participants in its postretirement medical plans of changes to be made to the plans, including increases in premium cost sharing and elimination of coverage for certain participants. The changes are expected to reduce annual net periodic postretirement medical cost beginning in 2010, and will reduce the benefit obligation by up to \$30,000,000. The Company may also recognize non-cash gains related to certain of the changes in 2010.

Results of Operations

As a result of the factors noted above, operating cash flow decreased 19.3% to \$166,995,000 in 2009 from \$207,022,000 in 2008, and decreased 20.3% on a same property basis. Operating cash flow margin decreased to 19.8% from 20.1% in the prior year reflecting a larger decrease in operating revenue than the decrease in operating expenses, as well as higher workforce adjustment and transition costs in 2009.

Depreciation expense decreased \$1,863,000, or 5.4% due to lower levels of capital spending in 2009 and 2008. Amortization expense decreased \$9,616,000, or 17.0%, in 2009 due to impairment charges in 2009 and 2008.

Due primarily to the continuing, and (at the time) increasing difference between its stock price and the per share carrying value of its net assets, the Company analyzed the carrying value of its net assets as of December 28, 2008 and again as of March 29, 2009. Deterioration in the Company's revenue and the overall recessionary operating environment for the Company and other publishing companies were also factors in the timing of the analyses.

As a result, in 2009 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$193,471,000. The Company also recorded pretax, non-cash charges of \$14,055,000 and \$33,848,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$19,951,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$4,579,000 to reduce the carrying value of property and equipment. The Company recorded \$64,319,000 of income tax benefit related to these charges.

For similar reasons, in 2008 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$908,977,000. The Company also recorded pretax, non-cash charges of \$13,027,000 and \$143,785,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$104,478,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$5,019,000 to reduce the carrying value of property and equipment. The Company recorded \$281,564,000 of income tax benefit related to these charges.

Equity in earnings in associated companies decreased \$5,091,000, or 49.9% in 2009. Operations of these businesses were similarly impacted by economic conditions. In May 2009, Citizen discontinued print publication of the *Tucson Citizen*. The change resulted in workforce adjustment and transition costs of approximately \$1,925,000 of which \$1,093,000 was incurred directly by TNI. In 2008, one of MNI's daily newspapers, *The Capital Times*, decreased print publication from six days per week to one day. The change resulted in workforce adjustment and transition costs of \$2,578,000.

The factors noted above resulted in an operating loss of \$173,388,000 and \$1,049,131,000 in 2009 and 2008, respectively.

Non-Operating Income and Expense

Financial expense increased \$24,453,000, or 37.8%, to \$89,183,000 due to an increase in debt financing costs of \$13,962,000 and higher interest rate spreads, which were partially offset by debt reduction of \$164,040,000 funded, in part, by a \$120,000,000 reduction in restricted cash, and the effect of lower interest rates. Interest rates in 2009 decreased substantially from 2008 levels.

As more fully discussed (and certain capitalized terms used below defined) under Item 7, *Liquidity and Capital Resources*, amendments to the Company's Credit Agreement consummated in 2009 increased

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financial expense in 2009 in relation to LIBOR. The Company is now subject to minimum LIBOR levels, which are currently in excess of actual LIBOR. The maximum rate has been increased to LIBOR plus 450 basis points, and the Company could also be subject to additional non-cash payment-in-kind interest if leverage increases above specified levels. At the September 2009 leverage level, the Company's debt under the Credit Agreement will be priced at the applicable LIBOR minimum plus 400 basis points. The interest rate on the Pulitzer Notes increased 1% to 9.05% in February 2009, until April 2010. The interest rate will increase by 0.5% per year thereafter.

Overall Results

The Company recognized an income tax benefit of 31.4% of loss from continuing operations before income taxes in 2009 and 21.8% of loss from continuing operations before income taxes in 2008. The favorable resolution of federal and state tax audits and other matters increased income tax benefit by \$455,000 in 2009 and \$2,811,000 in 2008. In 2009, the Company reduced the valuation allowance by \$12,557,000. The valuation allowance was increased \$21,588,000 in 2008.

The Company recorded a \$30,019,000 increase in the valuation allowance for deferred tax assets in the 13 weeks ended September 28, 2008. In the 13 weeks ended December 28, 2008, the Company determined that it had not considered the benefit of net operating loss carrybacks in its determination of the 2008 valuation allowance for deferred tax assets. The correction of this error resulted in a decrease of \$8,431,000 in the valuation allowance included in net deferred income tax liabilities recorded as of September 28, 2008, a corresponding increase in income tax benefit in the 13 weeks ended September 28, 2008, and a decrease in diluted loss per common share of \$0.19. The Company determined that the impact of this error on previously issued Consolidated Financial Statements is not material. The September 28, 2008 Consolidated Balance Sheet, and the related Consolidated Statements of Operations and Comprehensive Income (Loss), Stockholders' Equity and Cash Flows for 2008, included herein, have been revised to reflect the corrected amounts.

As more fully discussed (and certain capitalized terms used below defined) in Note 19 to the Notes to Consolidated Financial Statements, included herein, the Operating Agreement provided Herald a one-time right to require PD LLC to redeem its interest in PD LLC, together with its interest, if any, in DS LLC (the 2010 Redemption). The 2010 Redemption price for Herald's interest was to be determined pursuant to a formula. The Company recorded the present value of the remaining amount of this potential liability in its Consolidated Balance Sheet in 2008, with the offset primarily to goodwill in the amount of \$55,594,000, and the remainder recorded as a reduction of retained earnings. In 2009 and 2008, the Company accrued increases in the liability totaling \$1,466,000 and \$8,838,000, respectively, which increased net loss available to common stockholders. The present value of the 2010 Redemption in February 2009, was approximately \$73,602,000.

In February 2009, in conjunction with the Notes Amendment, PD LLC redeemed the 5% interest in PD LLC and DS LLC owned by Herald pursuant to a Redemption Agreement and adopted conforming amendments to the Operating Agreement. As a result, the value of Herald's former interest (the Herald Value) will be settled, at a date determined by Herald between April 2013 and April 2015, based on a calculation of 10% of the fair market value of PD LLC and DS LLC at the time of settlement, less the balance, as adjusted, of the Pulitzer Notes or the equivalent successor debt, if any. The Company has recorded a liability of \$2,300,000 at September 27, 2009 as an estimate of the amount of the Herald Value to be disbursed. The actual amount of the Herald Value will depend on such variables as future cash flows and indebtedness of PD LLC and DS LLC, market valuations of newspaper properties and the timing of the request for redemption.

The Redemption Agreement also terminated Herald's right to exercise its rights under the 2010 Redemption. As a result, in 2009 the Company reversed substantially all of its liability related to the 2010 Redemption. The reversal reduced liabilities by \$71,302,000 and increased comprehensive income by \$58,521,000 and stockholders' equity by \$68,824,000.

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As a result of the factors noted above, loss available to common stockholders totaled \$123,191,000 in 2009 compared to a loss available to common stockholders of \$880,316,000 in 2008. The Company recorded a loss per diluted common share of \$2.77 in 2009 and \$19.64 in 2008. Excluding unusual costs

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(and cost reductions), as detailed in the table below, diluted earnings per common share, as adjusted, were \$0.35 in 2009, compared to \$1.02 in 2008. Per share amounts may not add due to rounding.

| <i>(Thousands, Except Per Share Data)</i> | 2009 | | 2008 | |
|---|--------------|-----------|--------------|------------|
| | Amount | Per Share | Amount | Per Share |
| Loss available to common stockholders, as reported | \$ (123,191) | \$ (2.77) | \$ (880,316) | \$ (19.64) |
| Adjustments: | | | | |
| Impairment of goodwill and other assets, including TNI | 265,904 | | 1,175,286 | |
| Debt financing costs | 17,467 | | 3,505 | |
| Other, net | 6,848 | | 4,463 | |
| | 290,219 | | 1,183,254 | |
| Income tax effect of adjustments, net, other unusual tax items, and impact on minority interest | (94,518) | | (265,979) | |
| | 195,701 | 4.40 | 917,275 | 20.47 |
| Net income available to common stockholders, as adjusted | 72,510 | 1.63 | 36,959 | 0.82 |
| Change in redeemable minority interest liability | (57,055) | (1.28) | 8,838 | 0.20 |
| Net income, as adjusted | \$ 15,455 | \$ 0.35 | \$ 45,797 | \$ 1.02 |

Table of Contents**2008 vs. 2007**

Operating results, as reported in the Consolidated Financial Statements, are summarized below:

| <i>(Thousands, Except Per Common Share Data)</i> | 2008 | 2007 | Total | Percent Change Same Property |
|---|--------------|------------|--------|------------------------------------|
| Advertising revenue: | | | | |
| Retail | \$ 434,069 | \$ 455,802 | (4.8)% | (4.7)% |
| National | 44,143 | 54,901 | (19.6) | (19.6) |
| Classified: | | | | |
| Daily newspapers: | | | | |
| Employment | 59,457 | 81,683 | (27.2) | (27.2) |
| Automotive | 45,388 | 55,308 | (17.9) | (17.9) |
| Real estate | 43,282 | 58,529 | (26.1) | (26.1) |
| All other | 43,006 | 39,284 | 9.5 | 9.5 |
| Other publications | 43,361 | 47,737 | (9.2) | (9.6) |
| Total classified | 234,494 | 282,541 | (17.0) | (17.1) |
| Online | 55,119 | 56,074 | (1.7) | (1.7) |
| Niche publications | 15,874 | 16,094 | (1.4) | (1.4) |
| Total advertising revenue | 783,699 | 865,412 | (9.4) | (9.4) |
| Circulation | 195,457 | 203,481 | (3.9) | (3.9) |
| Commercial printing | 15,993 | 16,541 | (3.3) | (3.3) |
| Online services and other | 33,719 | 34,760 | (3.0) | (3.0) |
| Total operating revenue | 1,028,868 | 1,120,194 | (8.2) | (8.1) |
| Compensation | 421,652 | 439,426 | (4.0) | (3.8) |
| Newsprint and ink | 103,926 | 111,842 | (7.1) | (10.0) |
| Other operating expenses | 292,840 | 294,145 | (0.4) | (0.7) |
| Curtailement gains | - | (3,731) | NM | NM |
| Workforce adjustments and early retirement programs | 3,428 | 7,962 | NM | NM |
| | 821,846 | 849,644 | (3.3) | (3.8) |
| Operating cash flow | 207,022 | 270,550 | (23.5) | (20.3) |
| Depreciation and amortization | 91,078 | 92,700 | (1.7) | |
| Impairment of goodwill and other assets | 1,070,808 | - | NM | |
| Equity in earnings of associated companies | 10,211 | 20,124 | (49.3) | |
| Reduction in investment in TNI | 104,478 | - | NM | |
| Operating income (loss) | (1,049,131) | 197,974 | NM | |
| Non-operating expense, net | 64,730 | 82,749 | (21.8) | |
| Income (loss) from continuing operations before income taxes | (1,113,861) | 115,225 | NM | |
| Income tax expense (benefit) | (242,633) | 33,828 | NM | |
| Minority interest | 535 | 1,069 | (50.0) | |
| Income (loss) from continuing operations | (871,763) | 80,328 | NM | |
| Discontinued operations, net | 285 | 671 | NM | |
| Net income (loss) | (871,478) | 80,999 | NM | |
| Increase in redeemable minority interest | (8,838) | - | NM | |
| Income (loss) available to common stockholders | \$ (880,316) | \$ 80,999 | NM | |
| Earnings (loss) per common share: | | | | |
| Basic | \$ (19.65) | \$ 1.76 | NM | |

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| | | | |
|---------|---------|------|----|
| Diluted | (19.65) | 1.75 | NM |
|---------|---------|------|----|

The Company's 2008 fiscal year ended on the last Sunday in September. Beginning in 2008, all of the Company's enterprises use period accounting. The Company and its enterprises owned before the Pulitzer acquisition, which accounted for approximately 63% of revenue in 2008, used calendar

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accounting prior to 2008, with a September 30 fiscal year end. Pulitzer used period accounting for 2007. The table below summarizes days of business activity in years presented:

| <i>(Business Days)</i> | Enterprises Owned Prior to Pulitzer Acquisition | | Pulitzer Enterprises | | TNI | |
|------------------------|---|------|----------------------|------|------|------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Period Ended: | | | | | | |
| December | 91 | 92 | 91 | 91 | 91 | 98 |
| March | 91 | 90 | 91 | 91 | 91 | 91 |
| June | 91 | 91 | 91 | 91 | 91 | 91 |
| September | 91 | 92 | 91 | 98 | 91 | 91 |
| | 364 | 365 | 364 | 371 | 364 | 371 |

In total, acquisitions and divestitures accounted for \$664,000 of operating revenue in 2008 and \$817,000 of operating revenue in 2007.

Economic Conditions

According to the National Bureau of Economic Research, the United States economy entered a recession in the three months ended December 2007, and it is widely believed that certain elements of the economy, such as housing, were in decline before that time. 2008 revenue, operating results and cash flows were significantly impacted by the recession.

Advertising Revenue

In 2008, advertising revenue decreased \$81,713,000, or 9.4%, and same property advertising revenue decreased \$81,566,000, or 9.4%. On a combined basis, same property print and online retail advertising decreased 3.5%. Same property print retail revenue decreased \$21,381,000, or 4.7%, in 2008. A 5.0% decrease in daily newspaper retail advertising lineage also contributed to the overall decrease. Same property average retail rates, excluding preprint insertions, decreased 0.8% in 2008. Retail preprint insertion revenue decreased 2.6%. Online retail advertising increased 18.4% partially offsetting print declines.

The table below combines print and online advertising revenue and reclassifies certain print retail revenue to classified based on the primary business of the advertiser:

| <i>(Thousands, Same Property)</i> | 2008 | 2007 | Percent Change |
|-----------------------------------|------------|------------|----------------|
| Retail | \$ 439,354 | \$ 455,275 | (3.5)% |
| Classified: | | | |
| Employment | \$ 90,830 | \$ 116,848 | (22.3)% |

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| | | | |
|--------------------------|------------|------------|---------|
| Automotive | 62,938 | 72,913 | (13.7) |
| Real estate | 57,389 | 76,148 | (24.6) |
| Other | 72,177 | 72,435 | (0.4) |
| Total classified revenue | \$ 283,334 | \$ 338,344 | (16.3)% |

On a combined basis, print and online classified revenue decreased 16.3%. Same property print classified advertising revenue decreased \$48,254,000, or 17.1%, in 2008. Higher rate print employment advertising at the daily newspapers decreased 27.2% for the year on a same property basis, reflecting rising unemployment nationally. Same property print automotive advertising decreased 17.9% amid an industry-wide decline. Same property print real estate advertising decreased 26.1% in a weak housing market nationally, which also negatively impacted the home improvement, furniture and home electronics categories of retail revenue. Other daily newspaper print classified advertising increased 9.5% on a same property basis. Same property classified advertising rates decreased 9.4%.

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Advertising lineage, as reported on a same property basis for the Company's daily newspapers only, consists of the following:

| <i>(Thousands of Inches)</i> | 2008 | 2007 | Percent Change |
|------------------------------|--------|--------|----------------|
| Retail | 12,639 | 13,305 | (5.0)% |
| National | 612 | 677 | (9.6) |
| Classified | 14,317 | 15,833 | (9.6) |
| | 27,568 | 29,815 | (7.5)% |

Online advertising revenue decreased 1.7% on a same property basis, due to decreases in online classified sales, partially offset by a 18.4% increase in retail revenue. In addition, the Company began offering online employment advertising in Yahoo! Hot Jobs in 2007.

National advertising decreased \$10,757,000, or 19.6%, on a same property basis due to a 9.6% decline in lineage and a 19.5% decrease in average national rate. Advertising in niche publications decreased 1.4% on a same property basis.

Despite declines in advertising revenue, the Company's total advertising results have historically benchmarked favorably to industry averages reported by the NAA.

Circulation and Other Revenue

Circulation revenue decreased \$8,024,000, or 3.9% in 2008, and same property circulation revenue decreased \$8,018,000, or 3.9%. The Company's total average daily newspaper circulation units, including TNI and MNI, as measured by the ABC, declined 3.8% for the six months ended September 2008, compared to the same period in the prior year, and Sunday circulation declined 1.5%, significantly outperforming the industry as a whole, which experienced 4.5% declines both daily and Sunday. For the six months ended March 2008, total average daily circulation units including TNI and MNI, declined 2.9% and Sunday circulation decreased 0.8%, again outperforming the industry.

Same property commercial printing revenue decreased \$548,000, or 3.3%, in 2008. Same property online services and other revenue decreased \$1,043,000, or 3.0%, in 2008.

Operating Expenses

Costs other than depreciation, amortization, impairment charges and other unusual costs (and cost reductions) decreased \$26,995,000, or 3.2%, in 2008, and decreased \$29,699,000, or 3.6%, on a same property basis. In total, acquisitions and divestitures accounted for \$814,000 of operating expenses, excluding depreciation and amortization, in 2008 and \$1,123,000 in 2007.

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Compensation expense decreased \$17,774,000, or 4.0%, in 2008 and same property compensation expense decreased 3.8% driven by a decline in same property average full time equivalent employees of 4.3%.

Newsprint and ink costs decreased \$7,916,000, or 7.1%, in 2008 due to decreased usage from lower advertising, reduced page sizes and some reduction of content, partially offset by higher unit prices. Costs decreased 10.0% on a same property basis and volume decreased 11.2% on a same property basis.

Other operating costs, which are comprised of all operating expenses not considered to be compensation, newsprint, depreciation, amortization, or unusual costs (or cost reductions), decreased \$1,305,000, or 0.4%, in 2008 and decreased 0.7% on a same property basis.

In 2007, defined pension benefits for certain of the Company's employees were frozen at then current levels. As a result, the Company recognized a non-cash curtailment gain of \$1,791,000 in 2007, and also recognized the Company's 50% share of the \$2,074,000 non-cash curtailment gain recognized by TNI.

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In 2007, defined postretirement medical benefits for certain of the Company's employees were modified. As a result, the Company recognized a non-cash curtailment gain of \$1,940,000.

In 2008, reductions in staffing resulted in workforce adjustment costs totaling \$3,418,000. In 2007, the *St. Louis Post-Dispatch* concluded an offering of early retirement incentives that resulted in an adjustment of staffing levels. 60 employees volunteered to take advantage of the offer, which included enhanced pension and insurance benefits, and lump-sum cash payments based on continuous service. The initial cost totaled \$10,704,000 before income tax benefit of which \$7,962,000 was recorded as expense. The \$2,742,000 remaining cost was offset against previously existing unrecognized gains in certain of the Company's defined benefit plans. Approximately \$3,700,000 of the cost represents cash payments, with the remainder due primarily to enhancements of pension and other postretirement benefits.

Results of Operations

As a result of the factors noted above, operating cash flow decreased 23.5% to \$207,022,000 in 2008 from \$270,550,000 in 2007, and decreased 20.3% on a same property basis. Operating cash flow margin decreased to 20.1% from 24.2% in the prior year reflecting a larger decrease in operating revenue than the decrease in operating expenses, as well as comparable unusual costs (net of cost reductions) in both years.

Depreciation expense increased \$1,715,000, or 5.2%. Amortization expense decreased \$3,337,000, or 5.6%, in 2008 due to impairment charges.

Due primarily to the continuing, and increasing difference between its stock price and the per share carrying value of its net assets, the Company analyzed the carrying value of its net assets as of March 30, 2008 and again as of September 28, 2008. Deterioration in the Company's revenue and the overall recessionary operating environment for the Company and other publishing companies were also factors in the timing of the analyses.

As a result, in 2008 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$908,977,000. The Company also recorded pretax, non-cash charges of \$13,027,000 and \$143,785,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$104,478,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$5,019,000 to reduce the carrying value of property and equipment. The Company recorded \$281,564,000 of income tax benefit related to these charges.

Equity in earnings in associated companies decreased \$9,913,000, or 49.3% in 2008. Operations of these businesses were similarly impacted by the recession. In 2008, one of MNI's daily newspapers, *The Capital Times*, decreased print publication from six days per week to one day. The change resulted in workforce adjustment and transition costs of \$2,578,000. The Company's 50% share of TNI's curtailment gain increased 2007 results by \$1,037,000.

The factors noted above resulted in an operating loss of \$1,049,131,000 in 2008, compared to operating income of \$197,974,000 in 2007.

Non-Operating Income and Expense

Financial expense decreased \$18,869,000, or 20.9%, to \$71,472,000 due to debt reduction of \$63,250,000 funded primarily by cash generated from operations, as well as lower interest rates. Interest rates in 2008 decreased substantially from 2007 levels.

Overall Results

Income tax benefit was 21.8% of loss from continuing operations before income taxes in 2008 and expense of 29.4% of income from continuing operations before income taxes in 2007. The favorable resolution of federal and state tax audits and other matters increased income tax benefit by \$2,811,000 in 2008 and reduced income tax expense by \$6,880,000 in 2007. In 2008, the Company reduced certain deferred income tax assets by an increase in the valuation allowance of \$21,071,000 due to the uncertainty that such assets will be realized.

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The Company recorded a \$30,019,000 increase in the valuation allowance for deferred tax assets in the 13 weeks ended September 28, 2008. In the 13 weeks ended December 28, 2008, the Company determined that it had not considered the benefit of net operating loss carrybacks in its determination of the 2008 valuation allowance for deferred tax assets. The correction of this error resulted in a decrease of \$8,431,000 in the valuation allowance included in net deferred income tax liabilities recorded as of September 28, 2008, a corresponding increase in income tax benefit in the 13 weeks ended September 28, 2008, and a decrease in diluted loss per common share of \$0.19. The Company determined that the impact of this error on previously issued Consolidated Financial Statements is not material. The September 28, 2008 Consolidated Balance Sheet, and the related Consolidated Statements of Operations and Comprehensive Income (Loss), Stockholders' Equity and Cash Flows for 2008, included herein, have been revised to reflect the corrected amounts.

As more fully discussed (and certain capitalized terms used below defined) in Note 19 to the Notes to Consolidated Financial Statements, included herein, the Operating Agreement provided Herald a one-time right to require PD LLC to redeem its interest in PD LLC, together with its interest, if any, in DS LLC (the 2010 Redemption). The 2010 Redemption price for Herald's interest was to be determined pursuant to a formula. The Company recorded the present value of the remaining amount of this potential liability in its Consolidated Balance Sheet in 2008, with the offset primarily to goodwill in the amount of \$55,594,000, and the remainder recorded as a reduction of retained earnings. Recording of the liability for the 2010 Redemption resulted in an increase of loss available to common stockholders in 2008 of \$8,838,000, which increased net loss available to common stockholders.

As a result of the factors noted above, loss available to common stockholders totaled \$880,316,000 in 2008 compared to income available to common stockholders of \$80,999,000 in 2007. The Company recorded a loss per diluted common share of \$19.64 in 2008 compared to earnings of \$1.77 in 2007. Excluding unusual costs (and cost reductions), as detailed in the table below, diluted earnings per common share, as adjusted, were \$1.02 in 2008, compared to \$1.71 in 2007. Per share amounts may not add due to rounding.

| <i>(Thousands, Except Per Share Data)</i> | 2008 | | 2007 | |
|---|--------------|------------|-----------|-----------|
| | Amount | Per Share | Amount | Per Share |
| Income (loss) available to common stockholders, as reported | \$ (880,316) | \$ (19.64) | \$ 80,999 | \$1.77 |
| Adjustments: | | | | |
| Impairment of goodwill and other assets, including TNI | 1,175,286 | | - | |
| Debt financing costs | 3,505 | | 3,489 | |
| Other, net | 4,463 | | 3,194 | |
| | 1,183,254 | | 6,683 | |
| Income tax effect of adjustments, net, other unusual tax items, and impact on minority interest | (265,979) | | (9,507) | |
| | 917,275 | 20.47 | (2,824) | (0.06) |
| Net income available to common stockholders, as adjusted | 36,959 | 0.82 | 78,175 | 1.71 |
| Change in redeemable minority interest liability | 8,838 | 0.20 | - | - |
| Net income, as adjusted | \$ 45,797 | \$ 1.02 | \$ 78,175 | \$1.71 |

DISCONTINUED OPERATIONS

Revenue from discontinued operations in 2008 and 2007 was \$1,376,000 and \$7,581,000, respectively. Income (loss) from discontinued operations before income taxes was \$128,000 in 2008 and \$882,000 in 2007.

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In 2008, the Company sold its daily newspaper in DeKalb, Illinois for \$24,000,000, before income taxes. The transaction resulted in an after tax gain of \$219,000 which was recorded in discontinued operations in 2008.

In 2007, the Company sold a weekly newspaper in Oregon for \$250,000.

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LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash provided by operating activities of continuing operations was \$74,057,000 in 2009, \$136,612,000 in 2008 and \$167,630,000 in 2007. Operating losses in 2009 and 2008 were caused primarily by non-cash charges for impairment of goodwill and other assets and reduction of the Company's investment in TNI, net of the related change in deferred income taxes. The net change in all of the aforementioned factors accounted for the majority of the decrease in all years. Income from continuing operations in 2007 was accompanied by an increase in depreciation and amortization. An existing, unfunded, supplemental benefit retirement plan was liquidated, as planned, in 2008, reducing cash provided by operating activities by \$17,926,000. Changes in operating assets and liabilities and the timing of income tax payments accounted for the bulk of the remainder of the change in all years.

Investing Activities

Cash provided by investing activities totaled \$108,985,000 in 2009, and required \$14,963,000 in 2008 and \$38,523,000 in 2007. The Company liquidated \$120,000,000 of its restricted cash and investments in 2009 in order to fund a \$120,000,000 reduction in the balance of the Pulitzer Notes. Capital spending totaled \$11,555,000 in 2009, \$20,606,000 in 2008 and \$34,381,000 in 2007 and accounted for substantially all of the usage of funds in 2008 and 2007.

The Company anticipates that funds necessary for capital expenditures, which are expected to total between \$11,000,000 and \$13,000,000 in 2010, and other requirements, will be available from internally generated funds, or availability under its existing Credit Agreement. The 2009 Amendments, as discussed more fully below, limit capital expenditures to \$29,300,000 in 2010.

Financing Activities

Cash required by financing activities totaled \$198,591,000 in 2009, \$113,360,000 in 2008, and \$160,934,000 in 2007. Debt reduction and dividends accounted for the majority of the usage of funds in all years. Financing costs related to the 2009 Amendments also increased cash required in 2009. The annual dividend declared was \$0.76 per share in 2008 and \$0.72 per share in 2007. The final dividend declared in 2008 was paid in 2009.

In 2008, 1,722,280 shares of Common stock were acquired and returned to authorized shares at an average price of \$10.98. The 2009 Amendments, as defined below, require the Company to suspend stockholder dividends and share repurchases through April 2012.

Credit Agreement

In 2006, the Company entered into an amended and restated credit agreement (Credit Agreement) with a syndicate of financial institutions (the Lenders). The Credit Agreement provided for aggregate borrowing of up to \$1,435,000,000 and replaced a \$1,550,000,000 credit agreement consummated in 2005. In February 2009, the Company completed a comprehensive restructuring of the Credit Agreement, which supplemented amendments consummated earlier in 2009 (together, the 2009 Amendments).

Security

The Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by substantially all of the Company s existing and future, direct and indirect subsidiaries in which the Company holds a direct or indirect interest of more than 50% (the Credit Parties); provided however, that Pulitzer and its subsidiaries will not become Credit Parties for so long as their doing so would violate the terms of the Pulitzer Notes discussed more fully below. The Credit Agreement is secured by first priority security interests in the stock and other equity interests owned by the Credit Parties in their respective subsidiaries.

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As a result of the 2009 Amendments, the Credit Parties pledged substantially all of their tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the Credit Agreement. Assets of Pulitzer and its subsidiaries, TNI, the Company's ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

Interest Payments

Debt under the A Term Loan, which has a balance of \$714,885,000 at September 27, 2009, and the \$375,000,000 revolving credit facility, which has a balance of \$275,450,000 at September 27, 2009, bear interest, at the Company's option, at either a base rate or an adjusted Eurodollar rate (LIBOR), plus an applicable margin. The base rate for the facility is the greater of (i) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (ii) 0.5% in excess of the overnight federal funds rate at such time; or (iii) 30 day LIBOR plus 1.0%. The applicable margin is a percentage determined according to the following: For revolving loans and A Term Loans maintained as base rate loans: 1.625% to 3.5%, and maintained as Eurodollar loans: 2.625% to 4.5% depending, in each instance, upon the Company's leverage ratio at such time.

Minimum LIBOR levels of 1.25%, 2.0% and 2.5% for borrowings for one month, three month and six month periods, respectively, are also in effect. At September 27, 2009, all of the Company's outstanding debt under the Credit Agreement is based on one month borrowing. At the September 27, 2009 leverage level, the Company's debt under the Credit Agreement will be priced at a LIBOR margin of 400 basis points.

Under the 2009 Amendments, contingent, non-cash payment-in-kind interest expense of 1.0% to 2.0% will be accrued in a quarterly period only in the event the Company's leverage level exceeds 7.5:1 at the end of the previous quarter. At September 27, 2009, this provision is not applicable. Such non-cash charges, if any, will be added to the principal amount of debt and will be reversed, in whole or in part, in the event the Company's total leverage ratio is below 6.0:1 in September 2011 or the Company refinances the Credit Agreement in advance of its April 2012 maturity.

Principal Payments

The Company may voluntarily prepay principal amounts outstanding or reduce commitments under the Credit Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments. The Company is required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. Total A Term Loan payments in 2009 and 2008 were \$104,490,000 and \$62,250,000, respectively. The 2009 Amendments reduce the amount and delay the timing of mandatory principal payments under the A Term Loan. Payments in 2010 and 2011 total \$77,800,000 and \$65,000,000, respectively. Payments in 2012 prior to the April 2012 maturity total \$70,000,000. The scheduled payment at maturity is \$502,085,000, plus the balance of the revolving credit facility outstanding at that time.

In addition to the scheduled payments, the Company is required to make mandatory prepayments under the A Term Loan under certain other conditions. The Credit Agreement requires the Company to apply the net proceeds from asset sales to repayment of the A Term Loan. Repayments in 2008 met required repayments related to its sales transactions. In 2009, the Company made a \$440,000 payment related to this provision.

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The Credit Agreement also requires the Company to accelerate future payments under the A Term Loan in the amount of 75% of its excess cash flow, as defined, beginning in 2008. The Company had no excess cash flow in 2009. The Company had excess cash flow of approximately \$62,000,000 in 2008 and, as a result, paid \$46,325,000 originally due under the A Term Loan in March and June 2009. The acceleration of such payments due to asset sales or excess cash flow does not change the due dates of other A Term Loan payments.

Covenants and Other Matters

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. At September 27, 2009, the Company was in compliance with such covenants. These financial covenants

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include a maximum total leverage ratio, as defined. The total leverage ratio is based primarily on the sum of the principal amount of debt, which equals \$1,168,335,000 at September 27, 2009, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes several elements, including distributions from TNI and MNI.

The 2009 Amendments amended the Company's covenants to take into account economic conditions and the changes to amortization of debt noted above. The Company's total leverage ratio at September 27, 2009 was 6.49:1. Under the 2009 Amendments, the Company's maximum total leverage ratio limit will increase from 8.25:1 in September 2009 to 8.75:1 in December 2009, decrease to 8.5:1 in June 2010, decrease to 7.75:1 in September 2010, decrease to 7.5:1 in December 2010, decrease to 7.25:1 in March 2011 and decrease to 7.0:1 in June 2011. Each change in the leverage ratio limit noted above is effective on the last day of the quarter.

The Credit Agreement also includes a minimum interest expense coverage ratio, as defined. The Company's interest expense coverage ratio at September 27, 2009 was 2.22:1. The minimum interest expense coverage ratio is 1.6:1 in September 2009, will decrease thereafter to 1.4:1 through March 2010 and increase periodically thereafter until it reaches 2.25:1 in March 2012.

The 2009 Amendments require the Company to suspend stockholder dividends and share repurchases through April 2012. The 2009 Amendments also limit capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Further, the 2009 Amendments modify other covenants, including restricting the Company's ability to make additional investments and acquisitions without the consent of the Lenders, limiting additional debt beyond that permitted under the Credit Agreement, and limiting the amount of unrestricted cash and cash equivalents the Credit Parties may hold to a maximum of \$10,000,000 for a five day period. Such covenants require that substantially all future cash flows of the Company be directed toward debt reduction. Finally, the 2009 Amendments eliminated an unused incremental term loan facility.

Pulitzer Notes

In conjunction with its formation in 2000, PD LLC borrowed \$306,000,000 (the Pulitzer Notes) from a group of institutional lenders (the Noteholders). The aggregate principal amount of the Pulitzer Notes was payable in April 2009.

In February 2009, the Pulitzer Notes and the Guaranty Agreement described below were amended (the Notes Amendment). Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation using substantially all of its previously restricted cash, which totaled \$129,810,000 at December 28, 2008. The remaining debt balance of \$186,000,000 was refinanced by the Noteholders until April 2012.

The Pulitzer Notes are guaranteed by Pulitzer pursuant to a Guaranty Agreement dated May 1, 2000 (the Guaranty Agreement) with the Noteholders. The Notes Amendment provides that the obligations under the Pulitzer Notes are fully and unconditionally guaranteed on a joint and several basis by Pulitzer's existing and future subsidiaries (excluding Star Publishing and TNI). Also, as a result of the Notes Amendment, Pulitzer and each of its subsidiaries pledged substantially all of its tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the Pulitzer Notes. Assets and stock of Star Publishing, the Company's ownership interest in TNI and certain employee benefit plan assets are excluded.

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The Notes Amendment increased the rate paid on the outstanding principal balance to 9.05% until April 28, 2010. The interest rate will increase by 0.5% per year thereafter.

Pulitzer may voluntarily prepay principal amounts outstanding or reduce commitments under the Pulitzer Notes at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments. The Notes Amendment provides for mandatory scheduled prepayments, including quarterly principal payments of \$4,000,000 beginning on June 29, 2009 and an additional principal payment from restricted cash, if any, of up to \$4,500,000 in October 2010. In 2009, the \$4,000,000 payments due on June 29, 2009 and September 30, 2009 were made prior to the end of the previous fiscal quarter.

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The Notes Amendment establishes a reserve of restricted cash of up to \$9,000,000 (reducing to \$4,500,000 in October 2010) to facilitate the liquidity of the operations of Pulitzer. All other previously existing restricted cash requirements were eliminated. The Notes Amendment allocates a percentage of Pulitzer's quarterly excess cash flow (as defined in the Note Agreement) between Pulitzer and the Credit Parties and requires prepayments to the Noteholders under certain specified events. There was no excess cash flow in 2009.

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of the ratio of debt to EBITDA, as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. The Notes Amendment added a requirement to maintain minimum interest coverage, as defined. The Notes Amendment amended the Pulitzer Notes and the Guaranty Agreement covenants to take into account economic conditions and the changes to amortization of debt noted above. At September 27, 2009, Pulitzer was in compliance with such covenants.

Further, the Notes Amendment added and amended other covenants including limitations or restrictions on additional debt, distributions, loans, advances, investments, acquisitions, dispositions and mergers. Such covenants require that substantially all future cash flows of Pulitzer are required to be directed first toward repayment of the Pulitzer Notes and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

The Credit Agreement contains a cross-default provision tied to the terms of the Pulitzer Notes and the Pulitzer Notes have limited cross-default provisions tied to the terms of the Credit Agreement.

The 2005 purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of \$31,512,000, which was recorded as debt in the Consolidated Balance Sheets. At September 27, 2009, the unaccreted balance totals \$1,458,000. This amount is being accreted over the remaining life of the Pulitzer Notes, until April 2012, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due, or reduce the amount of interest to be paid, to the Noteholders.

Liquidity

The Company expects to utilize a portion of its capacity under its revolving credit facility to fund part of 2010 principal payments required under the Credit Agreement. At September 27, 2009, the Company had \$275,450,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, has approximately \$83,000,000 available for future use. Including cash and restricted cash, the Company's liquidity at September 27, 2009 totals \$99,900,000. This liquidity amount excludes any future cash flows. Mandatory principal payments on debt in 2010 total \$89,800,000. The Company expects all 2010 interest payments and a substantial amount of principal payments due in 2010 will be satisfied by the Company's continuing cash flows.

The Company's ability to operate as a going concern is dependent on its ability to remain in compliance with debt covenants and to refinance or amend its debt agreements as they become due, or earlier if available liquidity is consumed. The Company is in compliance with its debt covenants at September 27, 2009.

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There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an Event of Default occurs and is not remedied. Many of those consequences are beyond the control of the Company, Pulitzer, and PD LLC, respectively. The occurrence of one or more Events of Default would give rise to the right of the Lenders or the Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

The 2010 Redemption, as more fully discussed in Note 19 of the Notes to Consolidated Financial Statements, included herein, eliminated the potential requirement for a substantial cash outflow in April 2010. This event also substantially enhanced the Company's liquidity.

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Other

The Company paid fees to the Lenders and Noteholders for the 2009 Amendments and Notes Amendment which, along with the related legal and financial advisory expenses, totaled \$26,061,000. \$15,500,000 of the fees were capitalized and are being expensed over the remaining term of the Credit Agreement and Pulitzer Notes, until April 2012. At September 27, 2009, the Company has total unamortized financing costs of \$19,576,000.

At September 27, 2009, the Company's weighted average cost of debt (including the effect of interest rate swaps and collars) was 6.66%.

Aggregate maturities of debt in 2010, 2011 and 2012 are \$89,800,000, \$81,000,000, and \$997,535,000, respectively.

Discontinued Operations and Other Matters

Cash required by discontinued operations totaled \$5,000 in 2009 and provided \$15,170,000 and \$23,189,000 in 2008 and 2007, respectively. Cash proceeds from the sales of discontinued operations and cash generated from operations were the primary sources of funds in 2008 and 2007.

Cash and cash equivalents decreased \$15,554,000 in 2009, increased \$23,459,000 in 2008, and decreased \$8,638,000 in 2007.

SEASONALITY

The Company's largest source of publishing revenue, retail advertising, is seasonal and tends to fluctuate with retail sales in markets served. Historically, retail advertising is higher in the first and third fiscal quarters. Advertising revenue is lowest in the second fiscal quarter.

Quarterly results of operations are summarized in Note 21 of the Notes to Consolidated Financial Statements, included herein.

INFLATION

The Company anticipates that changing costs of newsprint, its basic raw material, may impact future operating costs. Energy costs have also become more volatile, and may increase in the future as a result of carbon emissions legislation currently under consideration in the United States Congress. Price increases (or decreases) for the Company's products are implemented when deemed appropriate by management. The

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Company continuously evaluates price increases, productivity improvements, sourcing efficiencies and other cost reductions to mitigate the impact of inflation.

CONTRACTUAL OBLIGATIONS

The following table summarizes the more significant of the Company's contractual obligations.

| <i>(Thousands)</i> Nature of Obligation | Payments (or Commitments) Due by Year(s) | | | | |
|--|--|-------------------|---------------------|-----------------|-----------------|
| | Total | Less Than 1 | 1-3 | 3-5 | More Than 5 |
| Debt (principal amount) ⁽¹⁾ | \$ 1,168,335 | \$ 89,800 | \$ 1,078,535 | \$ - | \$ - |
| Financial expense ⁽²⁾⁽³⁾ | 165,661 | 67,433 | 98,228 | - | - |
| Operating lease obligations | 19,501 | 4,178 | 6,518 | 3,178 | 5,627 |
| Capital expenditure commitments | 482 | 482 | - | - | - |
| | \$ 1,353,979 | \$ 161,893 | \$ 1,183,281 | \$ 3,178 | \$ 5,627 |

(1) Maturities of long-term debt exclude the possible impact of acceleration of amounts due under the Credit Agreement or Pulitzer Notes due to a future default under such agreements. See Note 7 of the Notes to Consolidated Financial Statements, included herein.

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- (2) Financial expense includes an estimate of interest expense for the Credit Agreement and Pulitzer Notes until their respective maturities in April 2012. Financial expense under the Credit Agreement is estimated based on the 30 day minimum LIBOR level of 1.25% at September 27, 2009 as increased by the Company's applicable margin of 4% at such date and the impact of interest rate swaps and collars, applied to the outstanding balance at September 27, 2009, as reduced by future contractual maturities of such debt. Financial expense under the Pulitzer Notes is estimated based on the fixed contractual interest rates applied to the outstanding balance at September 27, 2009, as reduced by future contractual maturities of such debt. Changes in interest rates in excess of the minimum LIBOR level, changes in the Company's applicable interest rate margin due to changes in the Company's maximum total leverage ratio, use of LIBOR borrowing periods in excess of 30 days, use of borrowing rates not based on LIBOR, use of additional interest rate hedging instruments, and/or principal payments in excess of contractual maturities or based on other requirements of the Credit Agreement or Pulitzer Notes could significantly change this estimate. See Note 7 of the Notes to Consolidated Financial Statements, included herein.
- (3) Financial expense excludes amortization of debt financing costs totaling \$26,061,000, as such costs were paid in 2009 and prior years. See Note 7 of the Notes to Consolidated Financial Statements, included herein.

The table above excludes future cash requirements for pension, postretirement and postemployment obligations. The periods in which these obligations will be settled in cash are not readily determinable and are subject to numerous future events and assumptions. The Company's estimate of cash requirements for these obligations in 2010 is approximately \$2,600,000. See Notes 9 and 10 of the Notes to Consolidated Financial Statements, included herein.

The table above excludes future cash requirements for the payment of the Herald Value to be settled between April 2013 and April 2015. The estimated value of the Herald Value at September 27, 2009 is \$2,300,000. See Note 19 of the Notes to Consolidated Financial Statements, included herein.

A substantial amount of the Company's deferred income tax liabilities is related to acquisitions and will not result in future cash payments. See Note 14 of the Notes to Consolidated Financial Statements, included herein.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk stemming from changes in interest rates and commodity prices. Changes in these factors could cause fluctuations in earnings and cash flows. In the normal course of business, exposure to certain of these market risks is managed as described below.

INTEREST RATES

Restricted Cash and Investments

Interest rate risk in the Company's restricted cash and investments is managed by investing only in short-term securities. Only U.S. Government and related securities are permitted.

Debt

The Company's debt structure and interest rate risk are managed through the use of fixed and floating rate debt. The Company's primary exposure is to LIBOR. A 100 basis point increase or decrease to LIBOR would, in theory, decrease or increase respectively, income from continuing operations before income taxes on an annualized basis by approximately \$7,153,000, based on \$715,335,000 of floating rate debt outstanding at September 27, 2009, after consideration of the interest rate swaps discussed below, and excluding debt subject to interest rate collars discussed below and debt of MNI.

The Company's debt under the Credit Agreement is subject to minimum interest rate levels of 1.25%, 2.0% and 2.5% for borrowings for one month, three month and six month periods, respectively. At September 27, 2009, all of the Company's outstanding debt under the Credit Agreement is based on one month borrowing. Based on the difference between interest rates at the end of November 2009 and the Company's minimum rate for one month borrowing, 30 day LIBOR would need to increase approximately 100 basis points before the Company's borrowing cost would begin to be impacted by an increase in interest rates.

At September 27, 2009, the Company had outstanding interest rate swaps in the notional amount of \$125,000,000. The interest rate swaps had original terms of four or five years, carried interest rates from

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4.3% to 4.4% (plus the applicable LIBOR margin) and effectively fixed the Company's interest rate on debt in the amount, and for the time periods, of such instruments.

In 2008, the Company executed interest rate collars in the notional amount of \$150,000,000. The collars had a two year term and limited LIBOR to an average floor of 3.57% and a cap of 5.0%. Such collars effectively limited the range of the Company's exposure to interest rates to LIBOR greater than the floor and less than the cap (in either case plus the applicable LIBOR margin) for the time period of such instruments.

At September 27, 2009, after consideration of the interest rate swaps described above, approximately 74% of the principal amount of the Company's debt was subject to floating interest rates. The interest rate collars described above limited the Company's exposure to interest rates on an additional 13% of the principal amount of its debt.

As of November 30, 2009, the full amount of the outstanding balance under the Credit Agreement became subject to floating interest rates, as all interest rate swaps and collars expired or were terminated at or prior to that date.

Certain of the Company's interest-earning assets, including those in employee benefit plans, also function as a natural hedge against fluctuations in interest rates on debt.

COMMODITIES

Certain materials used by the Company are exposed to commodity price changes. The Company manages this risk through instruments such as purchase orders and non-cancelable supply contracts. The Company is a participant in a buying cooperative with other publishing companies, primarily for acquisition of newsprint. The Company is also involved in continuing programs to mitigate the impact of cost increases through identification of sourcing and operating efficiencies. Primary commodity price exposures are newsprint and, to a lesser extent, ink and energy costs.

Significant declines in North American newsprint demand led to an approximate 45% price decline between December 2008 and August 2009. 2009 declines in newsprint demand were driven by the recessionary pressures on print advertising as well as noteworthy newsprint conservation programs, particularly web width size reductions, initiated in 2008. The 2009 demand decline outpaced the North American newsprint suppliers ability to reduce newsprint production, which led to excess inventories at both the producer and publisher levels. Most newsprint producers reported late summer 2009 transaction selling prices to be below cash operating costs. This operating loss position, along with the move of the largest North American newsprint producer AbitibiBowater Inc., to seek financial reorganization, has sparked several consecutive monthly price increase announcements, beginning in September 2009, certain of which have since been delayed or rescinded. Some North American newsprint producers have removed production capacity on a permanent basis in addition to idling excess capacity on an indefinite, but temporary basis, in an effort to balance capacity with current demand trends and support the announced price increases and their return to a positive cash flow position. The final extent of changes in price, if any, is subject to negotiation between newsprint producers and the Company.

A \$10 per tonne price increase for 30 pound newsprint would result in an annualized reduction in income before income taxes of approximately \$981,000 based on anticipated consumption in 2010, excluding consumption of MNI and TNI and the impact of LIFO accounting. Such prices

may also decrease. The Company substantially increased its supply of newsprint in 2009, which may help to mitigate the impact of recently announce price increases.

SENSITIVITY TO CHANGES IN VALUE

The Company's fixed rate debt consists of the Pulitzer Notes, which are not traded on an active market and held by a small group of Noteholders. Coupled with the volatility of substantially all domestic credit markets that exists the Company is unable, as of September 27, 2009, to measure the maximum potential impact on fair value of fixed rate debt of the Company from adverse changes in market interest rates under normal market conditions. The change in value, if determined, would likely be significant.

Changes in the value of interest rate swaps and interest rate collars from movements in interest rates are not determinable, due to the number of variables involved in the pricing of such instruments. However, increases in interest rates would generally result in increases in the fair value of such instruments.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information with respect to this Item is included herein under the caption Consolidated Financial Statements .

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2010, which is incorporated herein by reference, under the caption Relationship with Independent Registered Public Accounting Firm .

ITEM 9A. CONTROLS AND PROCEDURES

In order to ensure that the information that must be disclosed in filings with the Securities and Exchange Commission is recorded, processed, summarized and reported in a timely manner, the Company has disclosure controls and procedures in place. The Company's chief executive officer, Mary E. Junck, and chief financial officer, Carl G. Schmidt, have reviewed and evaluated disclosure controls and procedures as of September 27, 2009, and have concluded that such controls and procedures are effective.

There have been no changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect such controls, during the year ended September 27, 2009.

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Lee Enterprises, Incorporated (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of the Company's Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America.

Any internal control system, no matter how well designed, has inherent limitations and may not prevent or detect misstatements. Accordingly, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management of the Company assessed the effectiveness of the Company's internal control over financial reporting as of September 27, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on the assessment and those criteria, we believe that the Company maintained effective internal control over financial reporting as of September 27, 2009.

The 2009 Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

/s/ Mary E. Junck
Mary E. Junck
Chairman, President and Chief Executive Officer

December 11, 2009

/s/ Carl G. Schmidt
Carl G. Schmidt
Vice President, Chief Financial Officer

and Treasurer
December 11, 2009

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS

AND CORPORATE GOVERNANCE

Information with respect to this Item, except for certain information related to the Company's Executive Officers, included under the caption "Executive Team" in Part I of this Form 10-K, is included in the Company's Proxy Statement to be filed in January 2010, which is incorporated herein by reference, under the captions "Proposal 1 Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance". The Company's Executive Officers are those elected officers whose names and certain information are set forth under the caption "Executive Team" in Part I of this Form 10-K.

The Company has a Code of Business Conduct and Ethics (Code) that applies to all of its employees, including its principal executive officer, and principal financial and accounting officer. The Code is monitored by the Audit Committee of the Company's Board of Directors and is annually affirmed by its directors and executive officers. The Company maintains a corporate governance page on its website which includes the Code. The corporate governance page can be found at www.lee.net by clicking on "Governance". A copy of the Code will also be provided without charge to any stockholder who requests it. Any future amendment to, or waiver granted by the Company from, a provision of the Code will be posted on the Company's website.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2010, which is incorporated herein by reference, under the captions, "Compensation of Directors", "Executive Compensation" and "Compensation Discussion and Analysis"; provided, however, that the subsection entitled "Executive Compensation Report of the Executive Compensation Committee of the Board of Directors on Executive Compensation" shall not be deemed to be incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

AND RELATED STOCKHOLDER MATTERS

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Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2010, which is incorporated herein by reference, under the caption "Voting Securities and Principal Holders Thereof" and "Equity Compensation Plan Information".

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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS,
AND DIRECTOR INDEPENDENCE**

Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2010, which is incorporated herein by reference, under the caption "Directors' Meetings and Committees of the Board of Directors".

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information with respect to this Item is included in the Company's Proxy Statement to be filed in January 2010, which is incorporated herein by reference, under the caption "Relationship with Independent Registered Public Accounting Firm".

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

FINANCIAL STATEMENTS

Consolidated Statements of Operations and Comprehensive Income (Loss) Years ended September 27, 2009, September 28, 2008, and September 30, 2007

Consolidated Balance Sheets September 27, 2009 and September 28, 2008

Consolidated Statements of Stockholders' Equity Years ended September 27, 2009, September 28, 2008, and September 30, 2007

Consolidated Statements of Cash Flows Years ended September 27, 2009, September 28, 2008, and September 30, 2007

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firms

FINANCIAL STATEMENT SCHEDULES

All schedules have been omitted as not required, not applicable, not deemed material or because the information is included in the Notes to Consolidated Financial Statements.

EXHIBITS

See Exhibit Index, included herein.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on the 11th day of December 2009.

LEE ENTERPRISES, INCORPORATED

/s/ Mary E. Junck
Mary E. Junck
Chairman, President and Chief Executive Officer

/s/ Carl G. Schmidt
Carl G. Schmidt
Vice President, Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in their respective capacities on the 11th day of December 2009.

Signature

/s/ Richard R. Cole
Richard R. Cole

Director

/s/ Nancy S. Donovan
Nancy S. Donovan

Director

/s/ Leonard J. Elmore
Leonard J. Elmore

Director

/s/ Mary E. Junck
Mary E. Junck

Chairman, President, and
Chief Executive Officer, and Director

/s/ William E. Mayer
William E. Mayer

Director

/s/ Herbert W. Moloney III
Herbert W. Moloney III

Director

/s/ Andrew E. Newman
Andrew E. Newman

Director

/s/ Gordon D. Prichett
Gordon D. Prichett

Director

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/s/ Gregory P. Schermer
Gregory P. Schermer

Vice President Interactive Media,
and Director

/s/ Mark B. Vittert
Mark B. Vittert

Director

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EXHIBIT INDEX

Exhibits marked with an asterisk (*) are incorporated by reference to documents previously filed by the Company with the Securities and Exchange Commission, as indicated. Exhibits marked with a plus (+) are management contracts or compensatory plan contracts or arrangements filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K. All other documents listed are filed with this Annual Report on Form 10-K.

| Number | Description |
|--------|--|
| 2.1 * | Agreement and Plan of Merger dated as of January 29, 2005 among Lee Enterprises, Incorporated, LP Acquisition Corp. and Pulitzer Inc. (Exhibit 2.1 to Form 8-K filed February 3, 2005) |
| 2.2 * | Amended and Restated Agreement and Plan of Merger by and among Pulitzer Publishing Company, Pulitzer Inc. and Hearst-Argyle Television, Inc. dated as of May 25, 1998 (Exhibit 10.1 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 2.3 * | Asset Purchase Agreement dated September 6, 2006 by and among Lee Enterprises, Incorporated, Lee Procurement Solutions Co. and Sound Publishing, Inc. (Exhibit 2.3 to Form 10-K for the Fiscal Year Ended September 30, 2006) |
| 2.4 * | Asset Purchase Agreement dated September 5, 2006 by and among Lee Enterprises, Incorporated, Lee Procurement and Target Media Partners Operating Company, LLC (Exhibit 2.4 to Form 10-K for the Fiscal Year Ended September 30, 2006) |
| 3.1 * | Restated Certificate of Incorporation of Lee Enterprises, Incorporated, as amended, as of March 3, 2005 (Exhibit 3.1 to Form 10-Q for the Fiscal Quarter Ended March 31, 2005) |
| 3.2 * | Amended By-Laws of Lee Enterprises, Incorporated effective May 17, 2007. (Exhibit 99.1 to Form 8-K filed May 21, 2007) |
| 4 * | The description of the Company's preferred stock purchase rights contained in its report on Form 8-K, filed with the SEC on May 7, 1998, and related Rights Agreement, dated as of May 7, 1998 (Rights Agreement), between the Company and The First Chicago Trust Company of New York (First Chicago), as amended by Amendment No. 1 to the Rights Agreement dated January 1, 2008 between the Company and Wells Fargo Bank, N.A. (as successor rights agent to First Chicago) contained in the Company's report on Form 8-K filed with the SEC on January 11, 2008 as Exhibit 4.2, and the related form of Certificate of Designation of the Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights as Exhibit C, included as Exhibit 1.1 to the Company's registration statement on Form 8-A filed with the SEC on May 26, 1998 (File No. 1-6227), as supplemented by Form 8-A/A, Amendment No. 1, filed with the SEC on January 11, 2008. |
| 10.1 * | Amended and Restated Credit Agreement, dated as of December 21, 2005, by and among Lee Enterprises, Incorporated, the lenders from time to time party thereto, Deutsche Bank Trust Company Americas, as Administrative Agent, Deutsche Bank Securities Inc. and SunTrust Capital Markets, Inc., as Joint Lead Arrangers, Deutsche Bank Securities Inc., as Book Running Manager, SunTrust Bank, as Syndication Agent and Bank of America, N.A., The Bank of New York and The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch, as Co-Documentation Agents (Exhibit 10 to Form 10-Q for the Fiscal Quarter Ended December 31, 2005) |

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| Number | Description |
|--------|---|
| 10.2 * | First Amendment and Waiver to Credit Agreement, dated as of September 29, 2008, among Lee Enterprises, Incorporated (the Company), the Lenders party thereto, Deutsche Bank Trust Company Americas, as Administrative Agent, related to the Company's Amended and Restated Credit Agreement, dated as of December 21, 2005, by and among the Company, Deutsche Bank Trust Company Americas, as Administrative Agent, Deutsche Bank Securities Inc. and SunTrust Capital Markets, Inc., as Joint Lead Arrangers, Deutsche Bank Securities Inc., as Book Running Manager, SunTrust Bank, as Syndication Agent, and Bank of America, N.A., The Bank of New York and The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch, as Co-Documentation Agents and other lenders thereto (Exhibit 10.1 to Form 8-K filed December 17, 2008) |
| 10.3 * | Second Amendment to Credit Agreement, dated as of October 29, 2008, among Lee Enterprises, Incorporated (the Company), the Lenders party thereto, Deutsche Bank Trust Company Americas, as Administrative Agent, related to the Company's Amended and Restated Credit Agreement, dated as of December 21, 2005, by and among the Company, Deutsche Bank Trust Company Americas, as Administrative Agent, Deutsche Bank Securities Inc. and SunTrust Capital Markets, Inc., as Joint Lead Arrangers, Deutsche Bank Securities Inc., as Book Running Manager, SunTrust Bank, as Syndication Agent, and Bank of America, N.A., The Bank of New York and The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch, as Co-Documentation Agents and other lenders thereto (Exhibit 10.1 to Form 8-K filed December 17, 2008) |
| 10.4 * | Second Waiver to Credit Agreement, dated as of December 22, 2008, among Lee Enterprises, Incorporated, the lenders party thereto and Deutsche Bank Trust Company Americas, as Administrative Agent (Exhibit 10.4 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.5 * | Third Amendment, Consent and Waiver to Credit Agreement and First Amendment to Intercompany Subordination Agreement and Mortgages, dated as of February 18, 2009, among Lee Enterprises, Incorporated (Company), Deutsche Bank Trust Company Americas (Deutsche Bank Trust), as Administrative Agent and as Collateral Agent, and the Lenders party to the Amended and Restated Credit Agreement, dated as of December 21, 2005, among the Company, Deutsche Bank Trust, as Administrative Agent, Deutsche Bank Securities Inc. and SunTrust Capital Markets, Inc., as Joint Lead Arrangers, Deutsche Bank Securities Inc., as Book Running Manager, SunTrust Bank, as Syndication Agent, and Bank of America, N.A., The Bank of New York and The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch, as Co-Documentation Agents and other Lenders party thereto. (Exhibit 10.1 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.6 * | Security Agreement, dated as of November 21, 2008, among Lee Enterprises, Incorporated and certain of its subsidiaries in favor of Deutsche Bank Trust Company Americas, as Collateral Agent (Exhibit 10.1 to Form 8-K filed December 17, 2008) |
| 10.7 * | Amended and Restated Pledge Agreement, dated as of December 21, 2005, among Lee Enterprises, Incorporated (Company) and certain Subsidiaries of the Company party thereto and Deutsche Bank Trust Company Americas, as Collateral Agent (Exhibit 10.2 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.8 * | Amended and Restated Subsidiaries Guaranty, dated as of December 21, 2005, among Lee Enterprises, Incorporated (Company) and certain Subsidiaries of the Company party thereto in favor of Deutsche Bank Trust Company Americas, as Administrative Agent (Exhibit 10.3 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.9 * | Amended and Restated Intercompany Subordination Agreement, dated as of December 21, 2005, among Lee Enterprises, Incorporated (Company) and certain Subsidiaries of the Company party thereto and Deutsche Bank Trust Company Americas, as Collateral Agent (Exhibit 10.4 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |

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| Number | Description |
|---------|--|
| 10.10 * | St. Louis Post-Dispatch LLC Note Agreement, dated as of May 1, 2000, as amended by Amendment No. 1 to Note Agreement, entered into as of November 23, 2004 (Exhibit 10.8 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.11 * | Amendment No. 2 to Note Agreement, entered into as of February 1, 2006, by and between St. Louis Post-Dispatch LLC and the Note Holders party thereto related to the St. Louis Post-Dispatch LLC Note Agreement, dated as of May 1, 2000, as amended (Exhibit 10.14 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.12 * | Amendment No. 3 to Note Agreement, entered into as of November 19, 2008, by and between St. Louis Post-Dispatch LLC and the Note Holders party thereto related to St. Louis Post-Dispatch LLC Note Agreement, dated as of May 1, 2000, as amended (Exhibit 10.15 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.13 * | Limited Waiver to Note Agreement and Guaranty Agreement entered into as of December 26, 2008 by and among St. Louis Post-Dispatch LLC, Pulitzer Inc. and the Note Holders party thereto (Exhibit 10.16 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.14 * | Fourth Amendment to Note Agreement and First Amendment to Limited Waiver to Note Agreement and Guaranty Agreement entered into as of January 16, 2009 by and among St. Louis Post-Dispatch LLC, Pulitzer Inc. and the Noteholders party thereto (Exhibit 10.1 to Form 8-K filed January 20, 2009) |
| 10.15 * | Second Amendment to Limited Waiver to Note Agreement and Guaranty Agreement entered into as of January 30, 2009 by and among St. Louis Post-Dispatch LLC, Pulitzer Inc. and the Noteholders party thereto (Exhibit 10.1 to Form 8-K filed February 3, 2009) |
| 10.16 * | Third Amendment to Limited Waiver to Note Agreement and Guaranty Agreement, dated as of February 6, 2009, among St. Louis Post-Dispatch LLC, Pulitzer Inc. and the Noteholders party thereto (Exhibit 10.5 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.17 * | Limited Waiver and Amendment No. 5 to Note Agreement, dated as of February 18, 2009, among St. Louis Post-Dispatch LLC and the Noteholders party thereto (Exhibit 10.6 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.18 * | Security Agreement, dated as of February 18, 2009, among Pulitzer Inc., St. Louis Post-Dispatch LLC and each Subsidiary of the Company party thereto (Exhibit 10.7 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.19 * | Pledge Agreement, dated as of February 18, 2009, among Pulitzer Inc., St. Louis Post-Dispatch LLC and each Subsidiary of Pulitzer Inc. party thereto in favor of The Bank New York Mellon Trust Company, N.A., as Collateral Agent, on behalf and for the benefit of the Secured Parties (as defined therein) (Exhibit 10.8 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.20 * | Set-Off Agreement, dated as of February 18, 2009, among Lee Enterprises, Incorporated, Lee Procurement Solutions Co. and Pulitzer Inc. (Exhibit 10.10 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.21 * | Redemption Agreement, dated February 18, 2009, among St. Louis Post-Dispatch LLC, STL Distribution Services LLC, The Herald Publishing Company, LLC, Pulitzer Inc. and Pulitzer Technologies, Inc. (Exhibit 10.12 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.22 * | Pulitzer Inc. Guaranty Agreement, dated as of May 1, 2000 as amended by Amendment No. 1 to Guaranty Agreement, dated as of August 7, 2000, as further amended by Amendment No. 2 to Guaranty Agreement, dated as of November 23, 2004, and further amended by Amendment No. 3 to Guaranty Agreement, dated as of June 3, 2005 (Exhibit 10.9 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |

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| Number | Description |
|------------|---|
| 10.23 * | Amendment No. 4 to Guaranty Agreement, dated as of February 1, 2006, by Pulitzer Inc. related to the Pulitzer Inc. Guaranty Agreement, dated as of May 1, 2000, as amended (Exhibit 10.18 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.24 * | Limited Waiver and Amendment No. 5 to Guaranty Agreement, dated as of February 18, 2009, among Pulitzer Inc., in favor of the Noteholders under the Note Agreement, dated as of May 1, 2000, among St. Louis Post-Dispatch LLC and the Noteholders party thereto (Exhibit 10.11 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.25 * | Subsidiary Guaranty Agreement, dated as of February 18, 2009, among the Subsidiaries of Pulitzer Inc. party thereto in favor of the Noteholders under the Note Agreement, dated as of May 1, 2000, among St. Louis Post-Dispatch LLC and the Noteholders party thereto (Exhibit 10.9 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.26 * | Operating Agreement of St. Louis Post-Dispatch LLC, dated as of May 1, 2000, as amended by Amendment No. 1 to Operating Agreement of St. Louis Post-Dispatch LLC, dated as of June 1, 2001 (Exhibit 10.5 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.27 * | Amendment Number Two to Operating Agreement of St. Louis Post-Dispatch LLC, effective February 18, 2009, between Pulitzer Inc. and Pulitzer Technologies, Inc. (Exhibit 10.13 to Form 10-Q for the Fiscal Quarter Ended March 29, 2009) |
| 10.28 * | Amended and Restated Joint Operating Agreement, dated December 22, 1988, between Star Publishing Company and Citizen Publishing Company (Exhibit 10.2 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.29 * | Partnership Agreement, dated December 22, 1988, between Star Publishing Company and Citizen Publishing Company (Exhibit 10.3 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.30 * | Lease Agreement between Ryan Companies US, Inc. and Lee Enterprises, Incorporated dated May 2003 (Exhibit 10.7 to Form 10-K for the Fiscal Year Ended September 30, 2003) |
| 10.31 * | License Agreement, dated as of May 1, 2000, by and between Pulitzer Inc. and St. Louis Post-Dispatch LLC (Exhibit 10.7 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.32 * | Non-Confidentiality Agreement, dated as of May 1, 2000 (Exhibit 10.10 to Form 10-Q for the Fiscal Quarter Ended June 30, 2005) |
| 10.33 +* | Form of Director Compensation Agreement of Lee Enterprises, Incorporated for non-employee director deferred compensation (Exhibit 10.7 to Form 10-K for the Fiscal Year Ended September 30, 2004) |
| 10.34.1 +* | Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (effective October 1, 1999, as amended effective January 10, 2008) (Exhibit 10.1 to Form 10-Q for the Fiscal Quarter Ended March 30, 2008) |
| 10.35.2 +* | Forms of related Incentive Stock Option Agreement, Non-Qualified Stock Option Agreement, Accelerated Ownership Stock Option Agreement and Restricted Stock Agreement related to Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (effective as of October 1, 1999, as amended November 16, 2005). (Exhibit 10.15.1a to Form 10-K for the Fiscal Year Ended September 30, 2005) |
| 10.36.3 +* | Form of Key Executive Restricted Stock Agreement related to Lee Enterprises, Incorporated 1990 Long-Term Incentive Plan (Exhibit 10.2 to Form 8-K filed November 26, 2004) |

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| Number | Description |
|----------|--|
| 10.37 +* | Lee Enterprises, Incorporated Amended and Restated 1996 Stock Plan for Non-Employee Directors (Exhibit A to Schedule 14A Definitive Proxy Statement for 2003) |
| 10.38 +* | Lee Enterprises, Incorporated Supplementary Benefit Plan, Amended and Restated as of January 1, 2008 (Exhibit 10.25 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.39 +* | Lee Enterprises, Incorporated Outside Directors Deferral Plan, Amended and Restated as of January 1, 2008 (Exhibit 10.26 to Form 10-K for the Fiscal Year Ended September 28, 2008) |
| 10.40 +* | Form of Amended and Restated Employment Agreement for certain Lee Enterprises, Incorporated Executive Officers Group (Exhibit 10.2 to Form 10-Q for the Fiscal Quarter Ended March 30, 2008) |
| 10.41 +* | Form of Indemnification Agreement for Lee Enterprises, Incorporated Directors and Executive Officers Group (Exhibit 10.2 to Form 10-Q for the Fiscal Quarter Ended March 30, 2008) |
| 10.42 +* | Lee Enterprises, Incorporated 2005 Incentive Compensation Program (Appendix A to Schedule 14A Definitive Proxy Statement for 2005) |
| 10.43 +* | Cancellation Agreement dated November 19, 2004 between Lee Enterprises, Incorporated and Mary E. Junck (Exhibit 10.1 to Form 8-K filed on November 26, 2004) |
| 21 | Subsidiaries and associated companies |
| 23.1 | Consent of KPMG LLP, Independent Registered Public Accounting Firm |
| 23.2 | Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm |
| 23.3 | Consent of McGladrey & Pullen LLP, Independent Registered Public Accounting Firm |
| 23.4 | Report of McGladrey & Pullen LLP, Independent Registered Public Accounting Firm |
| 24 | Power of Attorney |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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Table of Contents**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)***(Thousands, Except Per Common Share Data)*

| | 2009 | 2008 Revised-See Note 14 | 2007 |
|---|---------------------|-----------------------------|------------------|
| Operating revenue: | | | |
| Advertising | \$ 614,674 | \$ 783,699 | \$ 865,412 |
| Circulation | 185,154 | 195,457 | 203,481 |
| Other | 42,202 | 49,712 | 51,301 |
| Total operating revenue | 842,030 | 1,028,868 | 1,120,194 |
| Operating expenses: | | | |
| Compensation | 339,014 | 421,652 | 439,426 |
| Newsprint and ink | 72,311 | 103,926 | 111,842 |
| Other operating expenses | 257,060 | 292,840 | 294,145 |
| Depreciation | 32,807 | 34,670 | 32,955 |
| Amortization of intangible assets | 46,792 | 56,408 | 59,745 |
| Impairment of goodwill and other assets | 245,953 | 1,070,808 | - |
| Curtailement gains | - | - | (3,731) |
| Workforce adjustments, transition costs and early retirement programs | 6,650 | 3,428 | 7,962 |
| Total operating expenses | 1,000,587 | 1,983,732 | 942,344 |
| Equity in earnings of associated companies | 5,120 | 10,211 | 20,124 |
| Reduction in investment in TNI | (19,951) | (104,478) | - |
| Operating income (loss) | (173,388) | (1,049,131) | 197,974 |
| Non-operating income (expense): | | | |
| Financial income | 1,886 | 5,857 | 7,613 |
| Financial expense | (75,425) | (67,967) | (86,852) |
| Debt financing costs | (17,467) | (3,505) | (3,489) |
| Other, net | 1,823 | 885 | (21) |
| Total non-operating expense, net | (89,183) | (64,730) | (82,749) |
| Income (loss) from continuing operations before income taxes | (262,571) | (1,113,861) | 115,225 |
| Income tax expense (benefit) | (82,509) | (242,633) | 33,828 |
| Minority interest | 179 | 535 | 1,069 |
| Income (loss) from continuing operations | (180,241) | (871,763) | 80,328 |
| Discontinued operations: | | | |
| Income from discontinued operations, net of income tax effect | - | 84 | 580 |
| Gain (loss) on disposition, net of income tax effect | (5) | 201 | 91 |
| Net income (loss) | (180,246) | (871,478) | 80,999 |
| Decrease (increase) in redeemable minority interest | 57,055 | (8,838) | - |
| Income (loss) available to common stockholders | (123,191) | (880,316) | 80,999 |
| Other comprehensive income (loss), net | (21,839) | 1,001 | (1,898) |
| Comprehensive income (loss) available to common stockholders | \$ (145,030) | \$ (879,315) | \$ 79,101 |
| Earnings (loss) per common share: | | | |
| Basic: | | | |
| Continuing operations | \$(2.77) | \$(19.65) | \$1.76 |
| Discontinued operations | - | 0.01 | 0.01 |
| | \$(2.77) | \$(19.64) | \$1.77 |
| Diluted: | | | |
| Continuing operations | \$(2.77) | \$(19.65) | \$1.75 |
| Discontinued operations | - | 0.01 | 0.01 |
| | \$(2.77) | \$(19.64) | \$1.77 |
| Dividends per common share | \$ - | \$ 0.76 | \$0.72 |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED BALANCE SHEETS**

| <i>(Thousands, Except Per Share Data)</i> | September 27 2009 | September 28 2008 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,905 | \$ 23,459 |
| Accounts receivable, less allowance for doubtful accounts: 2009 \$6,275; 2008 \$6,647 | 79,731 | 100,380 |
| Income taxes receivable | 5,625 | - |
| Inventories | 13,854 | 18,952 |
| Deferred income taxes | 3,638 | 3,675 |
| Other | 7,354 | 7,313 |
| Total current assets | 118,107 | 153,779 |
| Investments: | | |
| Associated companies | 58,073 | 81,022 |
| Restricted cash and investments | 9,324 | 126,060 |
| Other | 9,498 | 16,621 |
| Total investments | 76,895 | 223,703 |
| Property and equipment: | | |
| Land and improvements | 30,365 | 30,729 |
| Buildings and improvements | 195,573 | 196,159 |
| Equipment | 316,364 | 314,338 |
| Construction in process | 1,985 | 4,317 |
| | 544,287 | 545,543 |
| Less accumulated depreciation | 281,318 | 252,715 |
| Property and equipment, net | 262,969 | 292,828 |
| Goodwill | 433,552 | 627,023 |
| Other intangible assets, net | 603,348 | 701,184 |
| Other | 20,741 | 17,850 |
| Total assets | \$ 1,515,612 | \$ 2,016,367 |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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| | September 27 2009 | September 28 2008 Revised-See Note 14 |
|---|----------------------|---|
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 89,800 | \$ 1,337,640 |
| Accounts payable | 31,377 | 53,827 |
| Compensation and other accrued liabilities | 42,755 | 60,416 |
| Income taxes payable | - | 5,431 |
| Dividends payable | - | 8,539 |
| Unearned revenue | 37,001 | 38,871 |
| Total current liabilities | 200,933 | 1,504,724 |
| Long-term debt, net of current maturities | 1,079,993 | - |
| Pension obligations | 45,953 | 2,803 |
| Postretirement and postemployment benefit obligations | 40,687 | 58,767 |
| Other retirement and compensation obligations | 1,539 | 9,845 |
| Deferred income taxes | 93,766 | 187,869 |
| Redeemable and other minority interest | 252 | 72,244 |
| Income taxes payable | 12,839 | 11,756 |
| Other | 16,052 | 12,841 |
| Total liabilities | 1,492,014 | 1,860,849 |
| Stockholders' equity: | | |
| Serial convertible preferred stock, no par value; authorized 500 shares; none issued | - | - |
| Common Stock, \$2 par value; authorized 120,000 shares; issued and outstanding: 2009; 39,139 shares; 2008; 39,111 shares | 78,278 | 78,222 |
| Class B Common Stock, \$2 par value; authorized 30,000 shares; issued and outstanding: 2009; 5,776 shares; 2008; 5,979 shares | 11,552 | 11,958 |
| Additional paid-in capital | 137,713 | 134,289 |
| Accumulated deficit | (225,299) | (112,144) |
| Accumulated other comprehensive income | 21,354 | 43,193 |
| Total stockholders' equity | 23,598 | 155,518 |
| Total liabilities and stockholders' equity | \$ 1,515,612 | \$ 2,016,367 |

Table of Contents**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

| <i>(Thousands)</i> | 2009 | Amount 2008 Revised-See Note 14 | 2007 | 2009 | Shares 2008 | 2007 |
|---|------------------|---------------------------------------|---------------------|---------------|----------------|---------------|
| Common Stock: | \$ 78,222 | \$ 79,958 | \$ 78,974 | 39,111 | 39,979 | 39,487 |
| Balance, beginning of year | | | | | | |
| Conversion from Class B Common Stock | 406 | 458 | 372 | 203 | 229 | 186 |
| Shares issued | 82 | 1,404 | 708 | 41 | 702 | 354 |
| Shares reacquired | (432) | (3,598) | (96) | (216) | (1,799) | (48) |
| Balance, end of year | 78,278 | 78,222 | 79,958 | 39,139 | 39,111 | 39,979 |
| Class B Common Stock: | | | | | | |
| Balance, beginning of year | 11,958 | 12,416 | 12,788 | 5,979 | 6,208 | 6,394 |
| Conversion to Common Stock | (406) | (458) | (372) | (203) | (229) | (186) |
| Balance, end of year | 11,552 | 11,958 | 12,416 | 5,776 | 5,979 | 6,208 |
| Additional paid-in capital: | | | | | | |
| Balance, beginning of year | 134,289 | 132,090 | 123,738 | | | |
| Stock option expense | 194 | 1,507 | 2,144 | | | |
| Amortization of restricted Common Stock | 3,246 | 4,669 | 5,199 | | | |
| Income tax expense of stock options exercised | - | (3,413) | (686) | | | |
| Shares issued (redeemed) | (16) | (564) | 1,695 | | | |
| Balance, end of year | 137,713 | 134,289 | 132,090 | | | |
| Retained earnings (accumulated deficit): | | | | | | |
| Balance, beginning of year | (112,144) | 819,786 | 771,947 | | | |
| Net income (loss) | (180,246) | (871,478) | 80,999 | | | |
| Shares reacquired | - | (15,472) | - | | | |
| Adoption of FASB ASC Topic 740 | - | (1,733) | - | | | |
| Adoption of FASB ASC Topic 715 | (267) | - | - | | | |
| Change in redeemable minority interest | 67,358 | (8,838) | - | | | |
| Cash dividends | - | (34,409) | (33,160) | | | |
| Balance, end of year | (225,299) | (112,144) | 819,786 | | | |
| Accumulated other comprehensive income: | | | | | | |
| Balance, beginning of year | 43,193 | 42,192 | 3,178 | | | |
| Unrealized gain (loss) on interest rate exchange agreements | 1,004 | (4,776) | (3,796) | | | |
| Unrealized gain (loss) on available-for-sale securities | (680) | 72 | 716 | | | |
| Change in pension and postretirement benefits | (33,897) | 8,354 | - | | | |
| Adoption of FASB ASC Topic 715 | (903) | - | 65,780 | | | |
| Deferred income taxes, net | 12,637 | (2,649) | (23,686) | | | |
| Balance, end of year | 21,354 | 43,193 | 42,192 | | | |
| Total stockholders' equity | \$ 23,598 | \$ 155,518 | \$ 1,086,442 | 44,915 | 45,090 | 46,187 |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(Thousands)</i> | 2009 | 2008 Revised-See Note 14 | 2007 |
|--|--------------|-----------------------------|-----------|
| Cash provided by operating activities: | | | |
| Net income (loss) | \$ (180,246) | \$ (871,478) | \$ 80,999 |
| Results of discontinued operations | (5) | 285 | 671 |
| Income (loss) from continuing operations | (180,241) | (871,763) | 80,328 |
| Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations: | | | |
| Depreciation and amortization | 79,599 | 91,078 | 92,700 |
| Impairment of goodwill and other assets | 245,953 | 1,070,808 | - |
| Reduction in investment in TNI | 19,951 | 104,478 | - |
| Accretion of debt fair value adjustment | (3,807) | (7,990) | (7,579) |
| Stock compensation expense | 3,013 | 5,905 | 7,193 |
| Distributions greater (less) than earnings of associated companies | (609) | 1,772 | (792) |
| Decrease in deferred income taxes | (78,500) | (261,738) | (6,091) |
| Debt financing costs | 17,467 | 3,505 | 3,489 |
| Change in operating assets and liabilities, net of acquisitions: | | | |
| Decrease (increase) in receivables | 15,174 | 19,777 | (6,247) |
| Decrease (increase) in inventories and other | 3,866 | (4,875) | 5,439 |
| Increase (decrease) in accounts payable, accrued expenses and unearned revenue | (39,067) | (18,304) | 18,264 |
| Decrease in pension, postretirement and post employment benefits | (6,677) | (315) | (3,314) |
| Change in income taxes receivable or payable | (4,208) | 5,125 | (14,504) |
| Other | 2,143 | (851) | (1,256) |
| Net cash provided by operating activities of continuing operations | 74,057 | 136,612 | 167,630 |
| Cash provided by (required for) investing activities of continuing operations: | | | |
| Purchases of marketable securities | (47,777) | (115,555) | (90,005) |
| Sales or maturities of marketable securities | 166,109 | 87,873 | 78,018 |
| Purchases of property and equipment | (11,555) | (20,606) | (34,381) |
| Proceeds from sale of assets | 1,418 | 12,685 | 1,334 |
| Acquisitions, net | - | (1,624) | (1,065) |
| Decrease (increase) in restricted cash | (2,291) | 13,771 | (1,165) |
| Other | 3,081 | 8,493 | 8,741 |
| Net cash provided by (required for) investing activities of continuing operations | 108,985 | (14,963) | (38,523) |
| Cash provided by (required for) financing activities of continuing operations: | | | |
| Payments on long-term debt | (359,990) | (197,650) | (196,375) |
| Proceeds from long-term debt | 195,950 | 134,400 | 67,000 |
| Debt financing costs paid | (26,061) | - | - |
| Cash dividends paid | (8,539) | (32,573) | (33,038) |
| Purchases of Common Stock | (56) | (19,483) | (1,099) |
| Other, primarily issuance of Common Stock | 105 | 1,946 | 2,578 |
| Net cash required for financing activities of continuing operations | (198,591) | (113,360) | (160,934) |
| Net cash provided by (required for) discontinued operations: | | | |
| Operating activities | (5) | (8,741) | 502 |
| Investing activities | - | 23,911 | 22,687 |
| Net increase (decrease) in cash and cash equivalents | (15,554) | 23,459 | (8,638) |
| Cash and cash equivalents: | | | |
| Beginning of year | 23,459 | - | 8,638 |
| End of year | \$ 7,905 | \$ 23,459 | \$ - |

The accompanying Notes are an integral part of the Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Lee Enterprises, Incorporated (Company), is a premier provider of local news, information and advertising in primarily midsize markets, with 49 daily newspapers and a joint interest in four others, rapidly growing online sites and nearly 300 weekly newspapers and specialty publications in 23 states. The Company currently operates in a single operating segment.

In 2009, the Financial Accounting Standards Board (FASB) issued Statement 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASC), which became the source of accounting principles to be applied in the preparation of financial statements for nongovernmental agencies. ASC is effective for the Company as of September 27, 2009. ASC did not have any impact on the Company's Consolidated Financial Statements since it was not intended to change existing accounting principles generally accepted in the United States of America (GAAP), except as related to references for authoritative literature.

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned, except for its 50% interest in TNI Partners (TNI), 50% interest in Madison Newspapers, Inc. (MNI), and 82.5% interest in INN Partners, L.C. (INN).

The Company has evaluated subsequent events through December 11, 2009. The Annual Report on Form 10-K was filed with the Securities and Exchange Commission on December 11, 2009, which is the date the Consolidated Financial Statements were issued. No events have occurred subsequent to September 27, 2009 that require disclosure or recognition in these financial statements except as included herein.

Certain amounts as previously reported have been reclassified to conform with the current period presentation. See Notes 3 and 7.

References to 2009, 2008, 2007 and the like mean the fiscal years ended the last Sunday in September.

Fiscal Year

The Company's 2009 fiscal year ended on the last Sunday in September. Beginning in 2008, all of the Company's enterprises use period accounting. The Company and its enterprises owned before the Pulitzer Inc. (Pulitzer) acquisition, which accounted for approximately 63% of revenue in 2008, used calendar accounting prior to 2008, with a September 30 fiscal year end. Pulitzer operations used period accounting in all periods presented. The table below summarizes days of business activity in years presented:

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| | Enterprises Owned Prior | | | | | |
|------------------------|--|-----|--|-----|-------------------------|-----|
| | to Pulitzer Acquisition 2009 and 2008 | | Pulitzer Enterprises 2009 and 2008 | | TNI 2009 and 2008 | |
| <i>(Business Days)</i> | | | | | | |
| Period Ended: | | | | | | |
| December | 91 | 92 | 91 | 91 | 91 | 98 |
| March | 91 | 90 | 91 | 91 | 91 | 91 |
| June | 91 | 91 | 91 | 91 | 91 | 91 |
| September | 91 | 92 | 91 | 98 | 91 | 91 |
| | 364 | 365 | 364 | 371 | 364 | 371 |

Debt and Liquidity

As discussed more fully in Note 7 (and certain capitalized terms used below defined), in February 2009, the Company completed a comprehensive restructuring of its Credit Agreement and a refinancing of its

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Pulitzer Notes debt, substantially enhancing its liquidity and operating flexibility until April 2012. The Company disclosed in its 2008 Annual Report on Form 10-K, in part, that the ability to extend or refinance the Pulitzer Notes as they become due and to delay the acceleration of debt maturities upon the expiration of existing waivers of default under both the Credit Agreement and the Pulitzer Notes were factors that raised significant uncertainty about the Company's ability to continue as a going concern. The restructuring of the Credit Agreement and refinancing of the Pulitzer Notes resolve these issues.

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned, or majority-owned, subsidiaries. All significant intercompany transactions have been eliminated.

Investments in MNI and TNI are accounted for using the equity method and are reported at cost plus the Company's share of undistributed earnings since acquisition less, for TNI, amortization of intangible assets.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less at date of acquisition to be cash equivalents. Outstanding checks in excess of funds on deposit are included in accounts payable and are classified as financing activities in the Consolidated Statements of Cash Flows.

Accounts Receivable

The Company evaluates its allowance for doubtful accounts receivable based on historical credit experience, payment trends and other economic factors. Delinquency is determined based on timing of payments in relation to billing dates. Accounts considered to be uncollectible are written off.

Inventories

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Newsprint inventories are priced at the lower of cost or market, with cost being determined by the first-in, first-out or last-in, first-out methods. Newsprint inventories at September 27, 2009 and September 28, 2008 are less than replacement cost by \$1,693,000 and \$5,580,000, respectively.

The components of newsprint inventory by cost method are as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|---------------------|----------------------|----------------------|
| First-in, first-out | \$ 3,309 | \$ 8,695 |
| Last-in, first-out | 6,798 | 5,833 |
| | \$ 10,107 | \$ 14,528 |

Other inventories consisting of ink, plates and film are priced at the lower of cost or market, with cost being determined by the first-in, first-out method.

Restricted Cash and Investments

As more fully discussed (and certain capitalized terms used below defined) in Note 7, the Notes Amendment establishes a Reserve of restricted cash of up to \$9,000,000 (reducing to \$4,500,000 in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 2010) to facilitate the liquidity of the operations of Pulitzer. All other previously existing restricted cash requirements have been eliminated. Investments in the Reserve are limited to U.S. government and related securities and are recorded at fair value, with unrealized gains and losses reported, net of applicable income taxes, in accumulated other comprehensive income. The cost basis used to determine realized gains and losses is specific identification.

Other Investments

Other investments primarily consist of marketable securities held in trust under a deferred compensation arrangement and investments for which no established market exists. Marketable securities are classified as trading securities and carried at fair value with gains and losses reported in earnings. Non-marketable securities are carried at cost.

Property and Equipment

Property and equipment are carried at cost. Equipment, except for printing presses and mailroom equipment, is depreciated primarily by declining-balance methods. The straight-line method is used for all other assets. The estimated useful lives are as follows:

| | Years |
|---|-------|
| Buildings and improvements | 5 54 |
| Printing presses and mailroom equipment | 2 28 |
| Other | 3 20 |

The Company capitalizes interest as a component of the cost of constructing major facilities. At September 27, 2009 and September 28, 2008, capitalized interest was not significant.

The Company recognizes the fair value of a liability for a legal obligation to perform an asset retirement activity, when such activity is a condition of a future event and the fair value of the liability can be estimated.

Goodwill and Other Intangible Assets

Intangible assets include covenants not to compete, consulting agreements, customer lists, newspaper subscriber lists and mastheads. Intangible assets subject to amortization are being amortized as follows:

| | Years | |
|--------------------------------------|-------|----|
| Noncompete and consulting agreements | 5 | 15 |
| Customer lists | 5 | 23 |
| Newspaper subscriber lists | 7 | 33 |

In assessing the recoverability of goodwill and other nonamortized intangible assets, the Company makes a determination of the fair value of its business. Fair value is determined using a combination of an income approach, which estimates fair value based upon future revenue, expenses and cash flows discounted to their present value, and a market approach, which estimates fair value using market multiples of various financial measures compared to a set of comparable public companies in the publishing industry. An impairment charge will generally be recognized when the carrying amount of the net assets of the business exceeds its estimated fair value.

The required valuation methodology and underlying financial information that are used to determine fair value require significant judgments to be made by management. These judgments include, but are not limited to, long term projections of future financial performance and the selection of appropriate discount

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rates used to determine the present value of future cash flows. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

The Company analyzes goodwill and other nonamortized intangible assets for impairment on an annual basis, or more frequently if impairment indicators are present. Such indicators of impairment include, but are not limited to, changes in business climate and operating or cash flow losses related to such assets.

The Company reviews its amortizable intangible assets for impairment when indicators of impairment are present. The Company assesses recoverability of these assets by comparing the estimated undiscounted cash flows associated with the asset or asset group with their carrying amount. The impairment amount, if any, is calculated based on the excess of the carrying amount over the fair value of those assets.

The Company also periodically evaluates the useful lives of amortizable intangible assets. Any resulting changes in the useful lives of such intangible assets will not impact the cash flows of the Company. However, a decrease in the useful lives of such intangible assets would increase future amortization expense and decrease future reported operating results and earnings per common share. See Note 6.

Minority Interest

Minority interest in earnings of INN is recognized in the Consolidated Financial Statements.

Until February 2009, the Company also recognized minority interest in the earnings of St. Louis Post-Dispatch LLC (PD LLC) and STL Distribution Services LLC (DS LLC). As more fully discussed (and certain capitalized terms used below defined) in Note 19, in February 2009, in conjunction with the Notes Amendment, PD LLC redeemed the 5% interest in both PD LLC and DS LLC owned by Herald pursuant to a Redemption Agreement and adopted conforming amendments to the Operating Agreement. As a result, the value of Herald's former interest will be settled, at a date determined by Herald between April 2013 and April 2015, based on a calculation of 10% of the fair market value of PD LLC and DS LLC at the time of settlement, less the balance, as adjusted, of the Pulitzer Notes or the equivalent successor debt, if any.

In 2008, the Company recorded the repurchase obligation for the minority interest in PD LLC and DS LLC and elected the accretion method under FASB ASC Topic 480, *Distinguishing Liabilities from Equity*, to record increases or decreases in the expected value of the 2010 Redemption as an adjustment to retained earnings. Changes in the expected value of the 2010 Redemption had a corresponding impact on income (loss) available to common stockholders and earnings (loss) per common share through February 2009, the date the related agreements were amended. There was no impact on net income (loss) from the application FASB ASC Topic 480 to the 2010 Redemption. See Note 19.

Revenue Recognition

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Advertising revenue is recorded when advertisements are placed in the publication or on the related online site. Circulation revenue is recorded as newspapers are distributed over the subscription term. Other revenue is recognized when the related product or service has been delivered. Unearned revenue arises in the ordinary course of business from advance subscription payments for publications or advance payments for advertising.

Advertising Costs

A substantial amount of the Company's advertising and promotion expense consists of ads placed in its own publications and on its own websites using available space. The incremental cost of such advertising is not significant and is not measured separately by the Company. External advertising costs are not significant and are expensed as incurred.

Pension, Postretirement and Postemployment Benefit Plans

The Company evaluates its liability for pension, postretirement and postemployment benefit plans based upon computations made by consulting actuaries, incorporating estimates and actuarial assumptions of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

future plan service costs, future interest costs on projected benefit obligations, rates of compensation increases, employee turnover rates, anticipated mortality rates, expected investment returns on plan assets, asset allocation assumptions of plan assets, and other factors. If the Company used different estimates and assumptions regarding these plans, the funded status of the plans could vary significantly, resulting in recognition of different amounts of expense over future periods.

For 2009, the Company used a September 27 measurement date for all its pension and postretirement obligations in accordance with FASB ASC Topic 715, *Retirement Plans*. In 2008 and 2007, the Company used a June 30 measurement date. See Notes 9 and 10.

Income Taxes

Deferred income taxes are provided using the liability method, whereby deferred income tax assets are recognized for deductible temporary differences and loss carryforwards and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax basis. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Beginning with the adoption of FASB ASC Topic 740, *Income Taxes*, as of October 1, 2007, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Interest Rate Exchange Agreements

Until 2009, the Company accounted for interest rate exchange agreements, which are comprised of floating-to-fixed rate interest rate swaps, or interest rate collars, as cash flow hedges. The Company expected that the fair value of these agreements would significantly offset changes in the cash flows of the associated floating rate debt. The fair value of such instruments was recorded in accumulated other comprehensive income, net of applicable income tax expense or benefit.

In 2009, the Company marked all interest rate exchange agreements to market, which resulted in recognition of interest expense of \$268,000.

Stock Compensation

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The Company has four stock-based compensation plans. The Company accounts for grants under those plans under the fair value expense recognition provisions of FASB ASC Topic 718, *Compensation-Stock Compensation*. The Company amortizes as compensation expense the value of stock options and restricted Common Stock using the straight-line method over the vesting or restriction period, which is generally one to three years.

Uninsured Risks

The Company is self-insured for health care, workers compensation and certain long-term disability costs of its employees, subject to stop loss insurance, which limits exposure to large claims. The Company accrues its estimated health care costs in the period in which such costs are incurred, including an estimate of incurred but not reported claims. Other risks are insured and carry deductible losses of varying amounts. Letters of credit and a performance bond totaling \$7,460,000 at September 27, 2009 are outstanding in support of the Company's insurance program.

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The Company's accrued reserves for health care and workers compensation claims are based upon estimates of the remaining liability for retained losses made by consulting actuaries. The amount of workers compensation reserve has been determined based upon historical patterns of incurred and paid loss development factors from the insurance industry.

Discontinued Operations

In accordance with the provisions of FASB ASC Topic 360, *Property, Land and Equipment*, the operations and related losses on properties sold, or identified as held for sale, have been presented as discontinued operations in the Consolidated Statements of Operations and Comprehensive Income (Loss) for all years presented. Gains are recognized when realized. See Note 3.

2 ACQUISITIONS

All acquisitions are accounted for using the purchase method and, accordingly, the results of operations since the respective dates of acquisition are included in the Consolidated Financial Statements.

In 2008, the Company purchased a specialty publication at a cost of \$400,000 and a newspaper distribution business at a cost of \$240,000 and made final cash payments totaling \$984,000 related to newspaper distribution business purchases in 2007.

In 2007, the Company purchased a minority interest in an online employment application from PowerOne Media, LLC (PowerOne), in which the Company and MNI owned minority interests, at a cost of \$118,000. In 2007, PowerOne was dissolved. In 2007, the Company purchased several newspaper distribution businesses at a cost of \$1,911,000 of which \$984,000 was included in accounts payable at September 30, 2007. In 2007, the Company also purchased a specialty publication at a cost of \$20,000.

These acquisitions did not have a material effect on the Consolidated Financial Statements.

3 DISCONTINUED OPERATIONS

In 2008, the Company sold its daily newspaper in DeKalb, Illinois for \$24,000,000, before income taxes. The transaction resulted in an after tax gain of \$219,000, which is recorded in discontinued operations in 2008. Results of DeKalb operations have been classified as discontinued operations for all periods presented.

In 2007, the Company sold a weekly newspaper in Oregon for \$250,000.

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Results of discontinued operations consist of the following:

| <i>(Thousands)</i> | 2009 | 2008 | 2007 |
|---|--------|----------|----------|
| Operating revenue | \$ - | \$ 1,376 | \$ 7,581 |
| Income from discontinued operations | \$ - | \$ 128 | \$ 882 |
| Gain (loss) on sale of discontinued operations, before income taxes | (8) | 5,786 | 156 |
| Income tax expense (benefit), net | (3) | 5,629 | 367 |
| | \$ (5) | \$ 285 | \$ 671 |

Income tax expense related to discontinued operations differs from the amounts computed by applying the U.S. federal income tax rate as follows:

| | 2009 | 2008 | 2007 |
|--|---------|-------|-------|
| Computed expected income tax expense (benefit) | (35.0)% | 35.0% | 35.0% |
| State income taxes (benefit), net of federal income tax impact | (3.0) | 3.0 | 0.4 |
| Other, primarily goodwill basis differences | 0.5 | 57.2 | - |
| | (37.5)% | 95.2% | 35.4% |

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Tax expense of \$3,382,000 recorded in results of discontinued operations in 2008 is related to goodwill basis differences recognized as a result of the sale of DeKalb operations.

4 INVESTMENTS IN ASSOCIATED COMPANIES**TNI Partners**

In Tucson, Arizona, TNI, acting as agent for the Company's subsidiary, Star Publishing Company (Star Publishing), and Citizen Publishing Company (Citizen), a subsidiary of Gannett Co. Inc., is responsible for printing, delivery, advertising, and circulation of the *Arizona Daily Star* and, until May 2009, the *Tucson Citizen*, as well as their related online operations and specialty publications. TNI collects all receipts and income and pays substantially all operating expenses incident to the partnership's operations and publication of the newspapers and other media.

Income or loss of TNI (before income taxes) is allocated equally to Star Publishing and Citizen.

In May 2009, Citizen discontinued print publication of the *Tucson Citizen*. The change resulted in workforce adjustments and other transitions costs of approximately \$1,925,000 in 2009, of which \$1,093,000 was incurred directly by TNI.

Summarized financial information of TNI is as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | \$ 6,772 | \$ 12,516 |
| Investments and other assets | 19 | 19 |
| Total assets | \$ 6,791 | \$ 12,535 |
| LIABILITIES AND MEMBERS' EQUITY | | |
| Current liabilities | \$ 5,431 | \$ 7,032 |
| Members' equity | 1,360 | 5,503 |
| Total liabilities and members' equity | \$ 6,791 | \$ 12,535 |

Summarized results of TNI are as follows:

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| <i>(Thousands)</i> | 2009 | 2008 | 2007 |
|---|-----------|-----------|------------|
| Operating revenue | \$ 74,407 | \$ 98,156 | \$ 118,120 |
| Operating expenses, excluding depreciation and amortization | 66,535 | 76,978 | 81,528 |
| | \$ 7,872 | \$ 21,178 | \$ 36,592 |
| Company's 50% share | \$ 3,936 | \$ 10,589 | \$ 18,296 |
| Less amortization of intangible assets | 1,425 | 4,418 | 6,339 |
| Equity in earnings of TNI | \$ 2,511 | \$ 6,171 | \$ 11,957 |

Star Publishing's 50% share of TNI depreciation and certain general and administrative expenses associated with its share of the operation and administration of TNI are reported as operating expenses in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss). These amounts totaled \$1,184,000, \$1,337,000, and \$1,434,000, in 2009, 2008, and 2007, respectively. Fees for editorial services provided to TNI by Star totaled \$8,594,000, \$9,298,000 and \$8,541,000 in 2009, 2008 and 2007, respectively.

The Company's impairment analysis resulted in pretax reductions in the carrying value of TNI totaling \$19,951,000 and \$104,478,000 in 2009 and 2008, respectively. See Note 6.

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At September 27, 2009, the carrying value of the Company's 50% investment in TNI is \$33,941,000. The difference between the Company's carrying value and its 50% share of the members' equity of TNI relates principally to goodwill of \$19,876,000, and other identified intangible assets of \$13,791,000, certain of which are being amortized over their estimated useful lives through 2020. See Note 6.

In 2007, defined pension benefits for certain TNI employees were frozen at then current levels. As a result, TNI recognized a non-cash curtailment gain of \$2,074,000. See Note 9.

Annual amortization of intangible assets is estimated to be \$1,215,000 in each year from 2010 through 2012, \$1,113,000 in 2013 and \$911,000 in 2014.

Madison Newspapers, Inc.

The Company has a 50% ownership interest in MNI, which publishes daily and Sunday newspapers, and other publications in Madison, Wisconsin, and other Wisconsin locations, and operates their related online sites. Net income or loss of MNI (after income taxes) is allocated equally to the Company and The Capital Times Company (TCT). MNI conducts its business under the trade name Capital Newspapers.

In 2008, one of MNI's daily newspapers, *The Capital Times*, decreased print publication from six days per week to one day. The change resulted in workforce adjustment and transition costs of \$2,578,000 in 2008.

Summarized financial information of MNI is as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | \$ 17,677 | \$ 17,678 |
| Investments and other assets | 31,481 | 32,594 |
| Property and equipment, net | 11,346 | 12,583 |
| Total assets | \$ 60,504 | \$ 62,855 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities, excluding debt | \$ 7,941 | \$ 10,025 |
| Debt, including current maturities | - | 2,285 |
| Other liabilities | 4,299 | 3,500 |
| Stockholders' equity | 48,264 | 47,045 |
| Total liabilities and stockholders' equity | \$ 60,504 | \$ 62,855 |

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Summarized results of MNI are as follows:

| <i>(Thousands)</i> | 2009 | 2008 | 2007 |
|---|-----------|------------|------------|
| Operating revenue | \$ 79,291 | \$ 100,352 | \$ 111,968 |
| Operating expenses, excluding depreciation and amortization | 68,296 | 84,345 | 81,793 |
| Operating income | 7,755 | 11,949 | 25,871 |
| Net income | 5,218 | 8,080 | 16,334 |
| Company's 50% share of net income | \$ 2,609 | \$ 4,040 | \$ 8,167 |

Fees for editorial, marketing and information technology services provided to MNI by the Company are included in other revenue in the Consolidated Statements of Operations and Comprehensive Income (Loss) and totaled \$10,151,000, \$11,095,000, and \$10,636,000, in 2009, 2008, and 2007, respectively.

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Certain other information relating to the Company's investment in MNI is as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|------------------------|----------------------|----------------------|
| Company's share of: | | |
| Stockholders' equity | \$ 24,132 | \$ 23,522 |
| Undistributed earnings | 23,882 | 23,272 |

5 MARKETABLE SECURITIES AVAILABLE-FOR-SALE

Marketable securities, which are comprised of debt securities issued by the U.S. government and agencies, and which include certain of the Company's restricted cash and investments, are classified as available-for-sale securities at September 28, 2008, and consisted of the following:

| <i>(Thousands)</i> | September 28 2008 |
|-------------------------|----------------------|
| Amortized cost | \$ 118,347 |
| Gross unrealized gains | 899 |
| Gross unrealized losses | (219) |
| Fair value | \$ 119,027 |

In 2009, the Company sold its available for sale securities and used the proceeds primarily to reduce debt. See Note 7.

Proceeds from the sale of such securities total \$166,109,000 in 2009, \$87,873,000 in 2008, and \$78,018,000 in 2007. The Company recognized gross realized gains of \$1,856,000 and gross unrealized losses of \$46,000 in 2009. No significant gross realized gains or losses were realized in 2008 and 2007.

6 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill related to continuing operations are as follows:

| <i>(Thousands)</i> | 2009 | 2008 |
|---|------------|--------------|
| Goodwill, beginning of year | \$ 627,023 | \$ 1,505,460 |
| Goodwill, related to redeemable minority interest (see Note 19) | - | 55,594 |
| Goodwill related to acquisitions | - | (25,098) |

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| | | |
|-----------------------|------------|------------|
| Goodwill impairment | (193,471) | (908,977) |
| Other | - | 44 |
| Goodwill, end of year | \$ 433,552 | \$ 627,023 |

In 2008, the Company recorded a reduction to goodwill totaling \$25,098,000 to reflect a correction to the original 2005 purchase accounting of Pulitzer. The adjustment also reduced deferred income taxes by \$25,098,000. There is no impact on earnings or stockholders' equity from such adjustments.

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Identified intangible assets related to continuing operations consist of the following:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|---|----------------------|----------------------|
| Nonamortized intangible assets: | | |
| Mastheads | \$ 44,754 | \$ 59,869 |
| Amortizable intangible assets: | | |
| Customer and newspaper subscriber lists | 885,713 | 921,642 |
| Less accumulated amortization | 327,133 | 280,359 |
| | 558,580 | 641,283 |
| Noncompete and consulting agreements | 28,658 | 28,658 |
| Less accumulated amortization | 28,644 | 28,626 |
| | 14 | 32 |
| | \$603,348 | \$701,184 |

Due primarily to the continuing, and (at the time) increasing difference between its stock price and the per share carrying value of its net assets, the Company analyzed the carrying value of its net assets as of December 28, 2008 and again as of March 29, 2009. Deterioration in the Company's revenue and the overall recessionary operating environment for the Company and other publishing companies were also factors in the timing of the analyses.

As a result, in 2009 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$193,471,000. The Company also recorded pretax, non-cash charges of \$14,055,000 and \$33,848,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$19,951,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$4,579,000 to reduce the carrying value of property and equipment. The Company recorded \$64,319,000 of income tax benefit related to these charges.

For similar reasons, in 2008 the Company recorded pretax, non-cash charges to reduce the carrying value of goodwill by \$908,977,000. The Company also recorded pretax, non-cash charges of \$13,027,000 and \$143,785,000 to reduce the carrying value of nonamortized and amortizable intangible assets, respectively. \$104,478,000 of additional pretax charges were recorded as a reduction in the carrying value of the Company's investment in TNI. The Company also recorded additional, pretax non-cash charges of \$5,019,000 to reduce the carrying value of property and equipment. The Company recorded \$281,564,000 of income tax benefit related to these charges.

Annual amortization of intangible assets for the five years ending September 2014 is estimated to be \$45,210,000, \$44,570,000, \$42,717,000, \$39,140,000, and \$39,022,000, respectively.

7 DEBT**Credit Agreement**

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In 2006, the Company entered into an amended and restated credit agreement (Credit Agreement) with a syndicate of financial institutions (the Lenders). The Credit Agreement provided for aggregate borrowing of up to \$1,435,000,000 and replaced a \$1,550,000,000 credit agreement consummated in 2005. In February 2009, the Company completed a comprehensive restructuring of the Credit Agreement, which supplemented amendments consummated earlier in 2009 (together, the 2009 Amendments).

Security

The Credit Agreement is fully and unconditionally guaranteed on a joint and several basis by substantially all of the Company s existing and future, direct and indirect subsidiaries in which the Company holds a direct or indirect interest of more than 50% (the Credit Parties); provided however, that Pulitzer and its subsidiaries will not become Credit Parties for so long as their doing so would violate the terms of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pulitzer Notes discussed more fully below. The Credit Agreement is secured by first priority security interests in the stock and other equity interests owned by the Credit Parties in their respective subsidiaries.

As a result of the 2009 Amendments, the Credit Parties pledged substantially all of their tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the Credit Agreement. Assets of Pulitzer and its subsidiaries, TNI, the Company's ownership interest in, and assets of, MNI and certain employee benefit plan assets are excluded.

Interest Payments

Debt under the A Term Loan, which has a balance of \$714,885,000 at September 27, 2009, and the \$375,000,000 revolving credit facility which has a balance of \$275,450,000 at September 27, 2009, bear interest, at the Company's option, at either a base rate or an adjusted Eurodollar rate (LIBOR), plus an applicable margin. The base rate for the facility is the greater of (i) the prime lending rate of Deutsche Bank Trust Company Americas at such time; (ii) 0.5% in excess of the overnight federal funds rate at such time; or (iii) 30 day LIBOR plus 1.0%. The applicable margin is a percentage determined according to the following: For revolving loans and A Term Loans maintained as base rate loans: 1.625% to 3.5%, and maintained as Eurodollar loans: 2.625% to 4.5% depending, in each instance, upon the Company's leverage ratio at such time.

Minimum LIBOR levels of 1.25%, 2.0% and 2.5% for borrowings for one month, three month and six month periods, respectively, are also in effect. At September 27, 2009, all of the Company's outstanding debt under the Credit Agreement is based on one month borrowing. At the September 27, 2009 leverage level, the Company's debt under the Credit Agreement will be priced at a LIBOR margin of 400 basis points.

Under the 2009 Amendments, contingent, non-cash payment-in-kind interest expense of 1.0% to 2.0% will be accrued in a quarterly period only in the event the Company's leverage level exceeds 7.5:1 at the end of the previous quarter. At September 27, 2009, this provision is not applicable. Such non-cash charges, if any, will be added to the principal amount of debt and will be reversed, in whole or in part, in the event the Company's total leverage ratio is below 6.0:1 in September 2011 or the Company refinances the Credit Agreement in advance of its April 2012 maturity.

Principal Payments

The Company may voluntarily prepay principal amounts outstanding or reduce commitments under the Credit Agreement at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments. The Company is required to repay principal amounts, on a quarterly basis until maturity, under the A Term Loan. Total A Term Loan payments in 2009 and 2008 were \$104,490,000 and \$62,250,000, respectively. The 2009 Amendments reduce the amount and delay the timing of mandatory principal payments under the A Term Loan. Payments in 2010 and 2011 total \$77,800,000 and \$65,000,000, respectively. Payments in 2012 prior to the April 2012 maturity total \$70,000,000. The scheduled payment at maturity is \$502,085,000, plus the balance of the revolving credit facility outstanding at that time.

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In addition to the scheduled payments, the Company is required to make mandatory prepayments under the A Term Loan under certain other conditions. The Credit Agreement requires the Company to apply the net proceeds from asset sales to repayment of the A Term Loan. Repayments in 2008 met required repayments related to its sales transactions. In 2009, the Company made a \$440,000 payment related to this provision.

The Credit Agreement also requires the Company to accelerate future payments under the A Term Loan in the amount of 75% of its excess cash flow, as defined, beginning in 2008. The Company had no excess cash flow in 2009. The Company had excess cash flow of approximately \$62,000,000 in 2008 and, as a result, paid \$46,325,000 originally due under the A Term Loan in March and June 2009. The acceleration of such payments due to asset sales or excess cash flow does not change the due dates of other A Term Loan payments.

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Covenants and Other Matters

The Credit Agreement contains customary affirmative and negative covenants for financing of its type. At September 27, 2009, the Company was in compliance with such covenants. These financial covenants include a maximum total leverage ratio, as defined. The total leverage ratio is based primarily on the sum of the principal amount of debt, which equals \$1,168,335,000 at September 27, 2009, plus letters of credit and certain other factors, divided by a measure of trailing 12 month operating results, which includes several elements, including distributions from TNI and MNI.

The 2009 Amendments amended the Company's covenants to take into account economic conditions and the changes to amortization of debt noted above. The Company's total leverage ratio at September 27, 2009 was 6.49:1. Under the 2009 Amendments, the Company's maximum total leverage ratio limit will increase from 8.25:1 in September 2009 to 8.75:1 in December 2009, decrease to 8.5:1 in June 2010, decrease to 7.75:1 in September 2010, decrease to 7.5:1 in December 2010, decrease to 7.25:1 in March 2011 and decrease to 7.0:1 in June 2011. Each change in the leverage ratio limit noted above is effective on the last day of the quarter.

The Credit Agreement also includes a minimum interest expense coverage ratio, as defined. The Company's interest expense coverage ratio at September 27, 2009 was 2.22:1. The minimum interest expense coverage ratio is 1.6:1 in September 2009, will decrease thereafter to 1.4:1 through March 2010 and increase periodically thereafter until it reaches 2.25:1 in March 2012.

The 2009 Amendments require the Company to suspend stockholder dividends and share repurchases through April 2012. The 2009 Amendments also limit capital expenditures to \$20,000,000 per year, with a provision for carryover of unused amounts from the prior year. Further, the 2009 Amendments modify other covenants, including restricting the Company's ability to make additional investments and acquisitions without the consent of the Lenders, limiting additional debt beyond that permitted under the Credit Agreement, and limiting the amount of unrestricted cash and cash equivalents the Credit Parties may hold to a maximum of \$10,000,000 for a five day period. Such covenants require that substantially all future cash flows of the Company are required to be directed toward debt reduction. Finally, the 2009 Amendments eliminated an unused incremental term loan facility.

Pulitzer Notes

In conjunction with its formation in 2000, PD LLC borrowed \$306,000,000 (the Pulitzer Notes) from a group of institutional lenders (the Noteholders). The aggregate principal amount of the Pulitzer Notes was payable in April 2009.

In February 2009, the Pulitzer Notes and the Guaranty Agreement described below were amended (the Notes Amendment). Under the Notes Amendment, PD LLC repaid \$120,000,000 of the principal amount of the debt obligation using substantially all of its previously restricted cash, which totaled \$129,810,000 at December 28, 2008. The remaining debt balance of \$186,000,000 was refinanced by the Noteholders until April 2012.

The Pulitzer Notes are guaranteed by Pulitzer pursuant to a Guaranty Agreement dated May 1, 2000 (the Guaranty Agreement) with the Noteholders. The Notes Amendment provides that the obligations under the Pulitzer Notes are fully and unconditionally guaranteed on a joint

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and several basis by Pulitzer's existing and future subsidiaries (excluding Star Publishing and TNI). Also, as a result of the Notes Amendment, Pulitzer and each of its subsidiaries pledged substantially all of its tangible and intangible assets, and granted mortgages covering certain real estate, as collateral for the payment and performance of their obligations under the Pulitzer Notes. Assets and stock of Star Publishing, the Company's ownership interest in TNI and certain employee benefit plan assets are excluded.

The Notes Amendment increased the rate paid on the outstanding principal balance to 9.05% until April 28, 2010. The interest rate will increase by 0.5% per year thereafter.

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Pulitzer may voluntarily prepay principal amounts outstanding or reduce commitments under the Pulitzer Notes at any time, in whole or in part, without premium or penalty, upon proper notice and subject to certain limitations as to minimum amounts of prepayments. The Notes Amendment provides for mandatory scheduled prepayments, including quarterly principal payments of \$4,000,000 beginning on June 29, 2009 and an additional principal payment from restricted cash, if any, of up to \$4,500,000 in October 2010. In 2009, the \$4,000,000 payments due on June 29, 2009 and September 30, 2009 were made prior to the end of the previous fiscal quarter.

The Notes Amendment establishes a reserve of restricted cash of up to \$9,000,000 (reducing to \$4,500,000 in October 2010) to facilitate the liquidity of the operations of Pulitzer. All other previously existing restricted cash requirements were eliminated. The Notes Amendment allocates a percentage of Pulitzer's quarterly excess cash flow (as defined) between Pulitzer and the Credit Parties and requires prepayments to the Noteholders under certain specified events. There was no excess cash flow in 2009.

The Pulitzer Notes contain certain covenants and conditions including the maintenance, by Pulitzer, of the ratio of debt to EBITDA, as defined in the Guaranty Agreement, minimum net worth and limitations on the incurrence of other debt. The Notes Amendment added a requirement to maintain minimum interest coverage, as defined. The Notes Amendment amended the Pulitzer Notes and the Guaranty Agreement covenants to take into account economic conditions and the changes to amortization of debt noted above. At September 27, 2009, Pulitzer was in compliance with such covenants.

Further, the Notes Amendment added and amended other covenants including limitations or restrictions on additional debt, distributions, loans, advances, investments, acquisitions, dispositions and mergers. Such covenants require that substantially all future cash flows of Pulitzer are required to be directed first toward repayment of the Pulitzer Notes and that cash flows of Pulitzer are largely segregated from those of the Credit Parties.

The Credit Agreement contains a cross-default provision tied to the terms of the Pulitzer Notes and the Pulitzer Notes have limited cross-default provisions tied to the terms of the Credit Agreement.

The 2005 purchase price allocation of Pulitzer resulted in an increase in the value of the Pulitzer Notes in the amount of \$31,512,000, which was recorded as debt in the Consolidated Balance Sheets. At September 27, 2009, the unaccreted balance totals \$1,458,000. This amount is being accreted over the remaining life of the Pulitzer Notes, until April 2012, as a reduction in interest expense using the interest method. This accretion will not increase the principal amount due, or reduce the amount of interest to be paid, to the Noteholders.

Liquidity

The Company expects to utilize a portion of its capacity under its revolving credit facility to fund part of 2010 principal payments required under the Credit Agreement. At September 27, 2009, the Company had \$275,450,000 outstanding under the revolving credit facility, and after consideration of the 2009 Amendments and letters of credit, has approximately \$83,000,000 available for future use. Including cash and restricted cash, the Company's liquidity at September 27, 2009 totals \$99,900,000. This liquidity amount excludes any future cash flows. Mandatory principal payments on debt in 2010 total \$89,800,000. The Company expects all 2010 interest payments and a substantial amount of principal payments due in 2010 will be satisfied by the Company's continuing cash flows.

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The Company's ability to operate as a going concern is dependent on its ability to remain in compliance with debt covenants and to refinance or amend its debt agreements as they become due, or earlier if available liquidity is consumed. The Company is in compliance with its debt covenants at September 27, 2009.

There are numerous potential consequences under the Credit Agreement, and Guaranty Agreement and Note Agreement related to the Pulitzer Notes, if an Event of Default occurs and is not remedied. Many of those consequences are beyond the control of the Company, Pulitzer, and PD LLC, respectively. The occurrence of one or more Events of Default would give rise to the right of the Lenders or the

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Noteholders, or both of them, to exercise their remedies under the Credit Agreement and the Note and Guaranty Agreements, respectively, including, without limitation, the right to accelerate all outstanding debt and take actions authorized in such circumstances under applicable collateral security documents.

The 2010 Redemption, as discussed more fully in Note 19, eliminated the potential requirement for a substantial cash outflow in April 2010. This event also substantially enhanced the Company's liquidity.

Other

The Company paid fees to the Lenders and Noteholders for the 2009 Amendments and Notes Amendment which, along with the related legal and financial advisory expenses, totaled \$26,061,000. \$15,500,000 of the fees were capitalized and are being expensed over the remaining term of the Credit Agreement and Pulitzer Notes, until April 2012. At September 27, 2009, the Company has total unamortized financing costs of \$19,576,000.

Debt consists of the following:

| <i>(Thousands)</i> | September 27 2009 | Balance September 28 2008 | Interest Rate September 27 2009 |
|----------------------------------|----------------------|---------------------------------|---------------------------------------|
| Credit Agreement: | | | |
| A Term Loan | \$ 714,885 | \$ 819,375 | 5.25% |
| Revolving credit facility | 275,450 | 207,000 | 5.25 |
| Pulitzer Notes: | | | |
| Principal amount | 178,000 | 306,000 | 9.05 |
| Unaccreted fair value adjustment | 1,458 | 5,265 | |
| | 1,169,793 | 1,337,640 | |
| Less current maturities | 89,800 | 1,337,640 | |
| | \$ 1,079,993 | \$ - | |

At September 27, 2009, the Company's weighted average cost of debt (including the effect of interest rate swaps and collars) was 6.66%.

Aggregate maturities of debt in 2010, 2011 and 2012 are \$89,800,000, \$81,000,000, and \$997,535,000, respectively.

The Company has classified in the September 27, 2009 Consolidated Balance Sheet all amounts outstanding under the Credit Agreement and Pulitzer Notes based on their scheduled maturity dates, as determined under the 2009 Amendments and the Notes Amendment, respectively. Balances as of September 28, 2008 have not been reclassified.

8 INTEREST RATE EXCHANGE AGREEMENTS

At September 27, 2009, the Company had outstanding interest rate swaps in the notional amount of \$125,000,000. The interest rate swaps had original terms of four or five years, carried interest rates from 4.3% to 4.4% (plus the applicable LIBOR margin) and effectively fixed the Company's interest rate on debt in the amounts, and for the time periods, of such instruments.

In 2008, the Company executed interest rate collars in the notional amount of \$150,000,000. The collars had a two year term and limited LIBOR to an average floor of 3.57% and a cap of 5.0%. Such collars effectively limited the range of the Company's exposure to interest rates to LIBOR greater than the floor and less than the cap (in either case plus the applicable LIBOR margin) for the time period of such instruments.

At September 27, 2009 and September 28, 2008, the Company recorded a liability of \$3,445,000 and \$3,337,000, respectively, related to the fair value of such instruments. In 2008 the change in this fair

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value was recorded in other comprehensive income, net of income taxes. In 2009, the Company marked all interest rate change agreements to market, which resulted in recognition of interest expense of \$268,000.

At September 27, 2009, after consideration of the interest rate swaps described above, approximately 74% of the principal amount of the Company's debt was subject to floating interest rates. The interest rate collars described above limited the Company's exposure to interest rates on an additional 13% of the principal amount of its debt.

The Company's interest rate exchange agreements at September 27, 2009 consisted of the following:

| <i>(Thousands)</i> | | | | |
|-------------------------------------|-------------------|-------------------|------------|-------------------|
| Notional Amount | Start Date | Maturity Date | Rate(s) | Fair Value |
| VARIABLE TO FIXED RATE SWAPS | | | | |
| \$ 50,000 | November 30, 2005 | November 30, 2009 | 4.315% | \$ (514) |
| 50,000 | November 30, 2005 | November 30, 2009 | 4.325 | (501) |
| 25,000 | November 30, 2005 | November 30, 2010 | 4.395 | (1,177) |
| \$125,000 | | | | \$ (2,192) |
| COLLARS | | | | |
| \$ 75,000 | November 30, 2007 | November 30, 2009 | 3.53-5.00% | \$ (618) |
| 75,000 | November 30, 2007 | November 30, 2009 | 3.61-5.00 | (635) |
| \$150,000 | | | | \$ (1,253) |

In November 2009, the Company terminated the \$25,000,000 interest rate swap maturing in November 2010. The Company paid \$1,243,000 to the counterparty in settlement and recognized a loss of \$713,000.

As of November 30, 2009, the full amount of the outstanding balance under the Credit Agreement is subject to floating interest rates as all interest rate swaps and collars expired or were terminated at or prior to that date.

9 PENSION PLANS

The Company and its subsidiaries have several noncontributory defined benefit pension plans that together cover a significant number of *St. Louis Post-Dispatch* and selected other employees. Benefits under the plans are generally based on salary and years of service. The Company's liability and related expense for benefits under the plans are recorded over the service period of active employees based upon annual actuarial calculations. Plan funding strategies are influenced by tax regulations. Plan assets consist primarily of domestic and foreign corporate equity securities, government and corporate bonds, and cash.

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Effective September 30, 2007, the Company adopted the recognition and disclosure provisions of ASC Topic 715, *Retirement Plans*. FASB ASC Topic 715 requires the recognition of the over-funded or under-funded status of a defined benefit plan as an asset or liability in its balance sheet and recognition of the changes in that funded status in the year in which the changes occur as a component of other comprehensive income. Adoption of the recognition and disclosure provisions of ASC Topic 715 resulted in an increase in assets and decrease in liabilities in the aggregate amounts of \$9,591,000, and \$32,649,000, respectively, and an increase in stockholders' equity of \$26,944,000, net of the related income tax effect.

For 2009, the Company used a September 27 measurement date for all of its pension obligations in accordance with FASB ASC Topic 715. In 2008 and 2007, the Company used a June 30 measurement date. The change in the measurement date resulted in a decrease to the pension liability of \$260,000, an increase of \$591,000 to retained earnings and a decrease of \$331,000 to other comprehensive income.

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The cost components of the Company's pension plans are as follows:

| <i>(Thousands)</i> | 2009 | 2008 | 2007 |
|--|------------|------------|------------|
| Service cost for benefits earned during the year | \$ 1,076 | \$ 1,501 | \$ 1,909 |
| Interest cost on projected benefit obligation | 9,550 | 9,333 | 9,172 |
| Expected return on plan assets | (11,669) | (13,743) | (12,827) |
| Amortization of net gain | (1,181) | (1,697) | (1,355) |
| Amortization of prior service cost | (137) | (132) | (93) |
| Curtailement gains | - | - | (3,865) |
| Early retirement program benefits (see Note 19) | - | - | 3,869 |
| Net periodic pension benefit | \$ (2,361) | \$ (4,738) | \$ (3,190) |

Net periodic pension benefit of \$122,000, \$238,000, and \$2,136,000, is allocated to TNI in 2009, 2008, and 2007, respectively.

Changes in benefit obligations and plan assets are as follows:

| <i>(Thousands)</i> | 2009 | 2008 |
|--|------------|------------|
| Benefit obligation, beginning of year | \$ 147,424 | \$ 167,838 |
| Service cost | 1,076 | 1,501 |
| Interest cost | 9,550 | 9,333 |
| Actuarial loss (gain) | 21,676 | (20,853) |
| Benefits paid | (14,504) | (10,345) |
| Adjustment for FASB ASC Topic 715 | 2,658 | - |
| Change in plan provisions | - | (50) |
| Benefit obligation, end of year | 167,880 | 147,424 |
| Fair value of plan assets, beginning of year: | 151,801 | 177,179 |
| Actual return on plan assets | (13,692) | (13,738) |
| Benefits paid | (14,504) | (10,345) |
| Administrative expenses paid | (2,345) | (1,425) |
| Employer contributions | - | 130 |
| Adjustment for FASB ASC Topic 715 | 2,917 | - |
| Fair value of plan assets at measurement date | 124,177 | 151,801 |
| Funded status - benefit obligation greater (less) than plan assets | \$ 43,703 | (4,377) |

Disaggregated amounts recognized in the Consolidated Balance Sheets are as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|---|----------------------|----------------------|
| Other non-current assets | \$ - | \$ 4,941 |
| Pension obligations | 43,703 | 564 |
| Accumulated other comprehensive income (loss) (before income taxes) | (18,621) | 32,408 |

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Amounts recognized in accumulated other comprehensive income are as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|--|----------------------|----------------------|
| Unrecognized net actuarial gain (loss) | \$ (19,958) | \$ 30,901 |
| Unrecognized prior service benefit | 1,337 | 1,507 |
| | \$ (18,621) | \$ 32,408 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company expects to recognize \$453,000 and \$137,000 of unrecognized net actuarial loss and unrecognized prior service benefit, respectively, in net periodic pension cost in 2010.

The accumulated benefit obligation for the plans total \$165,070,000 at September 27, 2009, and \$144,937,000 at September 28, 2008. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets are \$167,880,000, \$165,070,000, and \$124,177,000, respectively, at September 27, 2009.

Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

| | September 27 2009 | September 28 2008 |
|-------------------------------|----------------------|----------------------|
| Discount rate | 5.5% | 6.75% |
| Rate of compensation increase | 3.5 | 3.5 |

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

| | 2009 | 2008 | 2007 |
|--|-------|-------|-------|
| Discount rate | 6.75% | 5.75% | 5.75% |
| Expected long-term return on plan assets | 8.0 | 8.0 | 8.0 |
| Rate of compensation increase | 3.5 | 4.0 | 4.0 |

The assumptions related to the expected long-term return on plan assets are developed through an analysis of historical market returns and current market conditions.

Plan Assets

The weighted-average asset allocation of the Company's pension assets is as follows:

Actual Allocation

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| Asset Class | Policy Allocation | September 27 | September 28 |
|--------------------------|-------------------|--------------|--------------|
| | | 2009 | 2008 |
| Equity securities | 65 to 70% | 71% | 68% |
| Debt securities and cash | 30 to 35 | 29 | 32 |

An investment policy outlines the governance structure for decision making, sets investment objectives and restrictions, and establishes criteria for selecting and evaluating investment managers. The use of derivatives is strictly prohibited, except on a case-by-case basis where the manager has a proven capability, and only to hedge quantifiable risks such as exposure to foreign currencies. An investment committee, consisting of Company executives and supported by independent consultants, is responsible for monitoring compliance with the investment policy. Assets are periodically redistributed to maintain the appropriate policy allocation.

The pension trust holds no Company securities, directly or through separate accounts.

Cash Flows

Based on its forecast at September 27, 2009, the Company does not expect to make contributions to its pension trust in 2010.

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The Company anticipates future benefit payments, which reflect future service, to be paid from the pension trust as follows:

(Thousands)

| | |
|-----------|-----------|
| 2010 | \$ 11,161 |
| 2011 | 10,897 |
| 2012 | 10,912 |
| 2013 | 10,986 |
| 2014 | 11,049 |
| 2015-2019 | 56,053 |

2007 Curtailment

In 2007, defined pension benefits for certain of the Company's employees were frozen at then current levels. As a result, the Company recognized a non-cash curtailment gain of \$1,791,000 and also recognized the Company's 50% share of the \$2,074,000 non-cash curtailment gain recognized by TNI. See Note 4.

Other Plans

The Company is obligated under an unfunded plan to provide fixed retirement payments to certain former employees. The plan is frozen and no additional benefits are being accrued. The accrued liability under the plan is \$2,617,000 and \$2,634,000 at September 27, 2009 and September 28, 2008, respectively.

Certain of the Company's employees participate in multi-employer retirement plans sponsored by their respective bargaining units. The amount charged to operating expense, representing the Company's required contributions to these plans, is approximately \$529,000 in 2009, \$2,230,000 in 2008, and \$597,000 in 2007.

10 POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

The Company provides retiree medical and life insurance benefits under postretirement plans at several of its operating locations. The level and adjustment of participant contributions vary depending on the specific plan. In addition, PD LLC provides postemployment disability benefits to certain employee groups prior to retirement at the *St. Louis Post-Dispatch*. The Company's liability and related expense for benefits under the postretirement plans are recorded over the service period of active employees based upon annual actuarial calculations. The Company accrues postemployment disability benefits when it becomes probable that such benefits will be paid and when sufficient information exists to make reasonable estimates of the amounts to be paid.

Effective September 30, 2007 the Company adopted the recognition and disclosure provisions of FASB ASC Topic 715, *Retirement Plans*. FASB ASC Topic 715 requires the Company to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an

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asset or liability in its balance sheet and recognition of the changes in that funded status in the year in which the changes occur as a component of other comprehensive income. Adoption of the recognition and disclosure provisions of FASB ASC Topic 715 resulted in a decrease in liabilities in the aggregate amount of \$23,540,000, and an increase in stockholders' equity of \$13,968,000, net of the related income tax effect.

For 2009, the Company used a September 27 measurement date for all of its postretirement obligations in accordance with FASB ASC Topic 715. In 2008 and 2007, the Company used a June 30 measurement date. The change in the measurement date resulted in an increase to the benefit obligation liability of \$1,430,000, a decrease of \$858,000 to retained earnings and a decrease of \$572,000 to other comprehensive income.

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The net periodic postretirement benefit cost components for the Company's postretirement plans are as follows:

| <i>(Thousands)</i> | 2009 | 2008 | 2007 |
|--|------------|----------|----------|
| Service cost for benefits earned during the year | \$ 770 | \$ 2,100 | \$ 2,099 |
| Interest cost on projected benefit obligation | 5,022 | 6,610 | 6,932 |
| Expected return on plan assets | (2,409) | (2,194) | (2,189) |
| Amortization of net gain | (2,760) | (633) | (101) |
| Amortization of prior service cost | (2,197) | (233) | (175) |
| Curtailement gain | - | - | (1,940) |
| Change in early retirement program benefits | - | - | 386 |
| Net periodic postretirement benefit cost (benefit) | \$ (1,574) | \$ 5,650 | \$ 5,012 |

Changes in benefit obligations and plan assets are as follows:

| <i>(Thousands)</i> | 2009 | 2008 |
|---|------------|------------|
| Benefit obligation, beginning of year | \$ 103,145 | \$ 118,278 |
| Service cost | 770 | 2,100 |
| Interest cost | 5,022 | 6,610 |
| Actuarial gain | (2,788) | (18,156) |
| Benefits paid, net of premiums received | (7,078) | (6,079) |
| Change in plan provisions | (20,673) | - |
| Medicare Part D subsidies | 517 | 392 |
| Adjustment for FASB ASC Topic 715 | 2,032 | - |
| Benefit obligation, end of year | 80,947 | 103,145 |
| Fair value of plan assets, beginning of year | 44,786 | 44,885 |
| Actual return on plan assets | 719 | 3,076 |
| Employer contributions | 1,507 | 2,513 |
| Benefits paid | (6,560) | (5,688) |
| Adjustment for FASB ASC Topic 715 | 601 | - |
| Fair value of plan assets at measurement date | 41,053 | 44,786 |
| Funded status - benefit obligation in excess of plan assets | 39,894 | 58,359 |
| Funding changes made after measurement date | - | 1,122 |
| Net liability recognized in the Consolidated Balance Sheets | \$ 39,894 | \$ 59,481 |

Disaggregated amounts recognized in the Consolidated Balance Sheets are as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|--|----------------------|----------------------|
| Current portion of benefit obligation | \$ 2,640 | \$ 4,260 |
| Postretirement benefit obligations | 37,254 | 55,221 |
| Accumulated other comprehensive income (before income tax benefit) | 57,954 | 41,712 |

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Amounts recognized in accumulated other comprehensive income are as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|------------------------------------|----------------------|----------------------|
| Unrecognized net actuarial gain | \$36,917 | \$39,093 |
| Unrecognized prior service benefit | 21,037 | 2,619 |
| | \$57,954 | \$41,712 |

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The Company expects to recognize \$2,217,000 and \$2,530,000 of unrecognized net actuarial gain and unrecognized prior service benefit, respectively, in net periodic postretirement benefit cost in 2010.

Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

| | September 27 2009 | September 28 2008 |
|--|----------------------|----------------------|
| Discount rate | 5.50% | 6.75% |
| Expected long-term return on plan assets | 5.75 | 5.75 |

The assumptions related to the expected long-term return on plan assets are developed through an analysis of historical market returns and current market conditions.

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

| | 2009 | 2008 | 2007 |
|--|-------|-------|-------|
| Discount rate | 5.50% | 5.75% | 5.75% |
| Expected long-term return on plan assets | 5.75 | 5.0 | 5.0 |

Assumed health care cost trend rates are as follows:

| | September 27 2009 | September 28 2008 |
|--|----------------------|----------------------|
| Health care cost trend rates | 9.0% | 8.0% |
| Rates to which the cost trend rate is assumed to decline (the Ultimate Trend Rates) | 5.0 | 4.5-5.0 |
| Year in which the rate reaches the Ultimate Trend Rates | 2013 | 2011 |

Administrative costs related to indemnity plans are assumed to increase at the health care cost trend rates noted above.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one percentage point change in assumed health care cost trend rates would have the following annualized effects on reported amounts for 2009:

| <i>(Thousands)</i> | One Percentage | |
|--|----------------|-------------------|
| | Increase | Point Decrease |
| Effect on net periodic postretirement benefit cost | \$ 485 | \$ (440) |
| Effect on postretirement benefit obligation | 7,543 | (6,669) |

Plan Assets

The weighted-average asset allocation of the Company's postretirement fund at September 27, 2009 and September 28, 2008, is as follows:

| Asset Class | Policy Allocation | Actual Allocation | |
|--------------------------|-------------------|----------------------|----------------------|
| | | September 27 2009 | September 28 2008 |
| Equity securities | 0-5% | 3% | - % |
| Debt securities and cash | 95-100 | 97 | 100 |

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An investment policy outlines the governance structure for decision making, sets investment objectives and restrictions, and establishes criteria for selecting and evaluating investment managers. The use of derivatives is strictly prohibited, except on a case-by-case basis where the manager has a proven capability, and only to hedge quantifiable risks such as exposure to foreign currencies. An investment committee, consisting of Company executives and supported by independent consultants, is responsible for monitoring compliance with the investment policy. In 2009, the investment policy allocation was revised to allow equity investments.

The postretirement fund holds no Company securities, directly or through separate accounts.

Cash Flows

Based on its forecast at September 27, 2009, the Company expects to contribute \$2,600,000 to its postretirement plans in 2010.

In December 2003 the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of retiree health care benefit plans (Subsidy) that provide a benefit that is at least actuarially equivalent (as that term is defined in the Act) to Medicare Part D. The Company concluded that it qualifies for the Subsidy under the Act since the prescription drug benefits provided under the Company's postretirement health care plans generally require lower premiums from covered retirees and have lower deductibles than the benefits provided in Medicare Part D and, accordingly, are actuarially equivalent to or better than, the benefits provided under the Act.

The Company anticipates future benefit payments, which reflect future services, to be paid either with future contributions to the plan or directly from plan assets, as follows:

| <i>(Thousands)</i> | Gross Payments | Less Medicare Part D Subsidy | Net Payments |
|--------------------|-------------------|---------------------------------------|-----------------|
| 2010 | \$ 6,100 | \$ (460) | \$ 5,640 |
| 2011 | 6,260 | (480) | 5,780 |
| 2012 | 6,360 | (510) | 5,850 |
| 2013 | 6,370 | (530) | 5,840 |
| 2014 | 6,330 | (550) | 5,780 |
| 2015-2019 | 30,840 | (3,020) | 27,820 |

2010 Changes to Plans

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In December 2009, the Company notified certain participants in its postretirement medical plans of changes to be made to the plans, including increases in employee premiums and elimination of coverage for certain participants. The changes are expected to reduce annual net periodic postretirement medical cost beginning in 2010, and will reduce the benefit obligation by up to \$30,000,000. The Company may also recognize non-cash gains related to certain of the changes in 2010.

2009 Changes to Plans

In October and December 2008, the Company notified certain participants in its postretirement medical plans of administrative changes to be made to the plans, effective in January 2009, including increases in employee premiums, changes in the plans' reimbursement of medical expenses covered by Medicare, elimination of certain coverage options and the establishment of an account-based structure. The changes reduced the benefit obligation by \$23,047,000, effective as of December 2008.

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2007 Curtailment

In 2007, defined postretirement medical benefits for certain of the Company's employees were modified. As a result, the Company recognized a non-cash curtailment gain of \$1,940,000.

Postemployment Plan

The Company's postemployment benefit obligation, representing certain disability benefits at the *St. Louis Post-Dispatch*, is \$3,433,000 at September 27, 2009 and \$3,547,000 at September 28, 2008.

11 OTHER RETIREMENT PLANS

Substantially all of the Company's employees are eligible to participate in a qualified defined contribution retirement plan. The Company also has other retirement and compensation plans for executives and others. Benefits under such plans were substantially reduced or eliminated in 2009.

Retirement and compensation plan costs, including interest on deferred compensation costs, charged to continuing operations are \$6,702,000 in 2009, \$24,325,000 in 2008, and \$24,664,000 in 2007.

In conjunction with the acquisition of Pulitzer, an existing supplemental benefit retirement plan (SERP) was amended and converted into an individual account plan. An account was established for each participant and was credited with an amount representing the present value of the participant's accrued benefit under the SERP, plus adjustments for certain individuals subject to existing transition agreements. Interest was credited to each account at an annual rate of 5.75%. The SERP, as amended, was liquidated in 2008, at which time each participant received a lump sum payment equal to the balance in his account. Retired participants continued to receive annuity payments until the liquidation of the SERP. The final payment amount totaled \$17,926,000.

12 COMMON STOCK, CLASS B COMMON STOCK, AND PREFERRED SHARE PURCHASE RIGHTS

Class B Common Stock has ten votes per share on all matters and generally votes as a class with Common Stock (which has one vote per share). The transfer of Class B Common Stock is restricted. Class B Common Stock is at all times convertible into shares of Common Stock on a share-for-share basis. Common Stock and Class B Common Stock have identical rights with respect to cash dividends and upon liquidation. All outstanding Class B Common Stock converts to Common Stock when the shares of Class B Common Stock outstanding total less than 5,600,000 shares.

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In 1998, the Board of Directors adopted a Shareholder Rights Plan (the Plan). Under the Plan, the Board of Directors declared a dividend of one Preferred Share Purchase Right (Right) for each outstanding share of Common Stock and Class B Common Stock (collectively Common Shares) of the Company. Rights are attached to, and automatically trade with, the Company s Common Shares.

In 2008, the Board of Directors approved an amendment to the Plan. The amendment increased the beneficial ownership threshold to 25% from 20% for stockholders purchasing Common Stock for passive investment only and decreased the threshold to 15% for all other investors. In addition, the amendment extended the expiration of the Plan to May 31, 2018 from May 31, 2008.

Rights become exercisable only in the event that any person or group of affiliated persons other than a passive investor becomes a holder of 15% or more of the Company s outstanding Common Shares, or commences a tender or exchange offer which, if consummated, would result in that person or group of affiliated persons owning at least 15% of the Company s outstanding Common Shares. Once the Rights become exercisable, they entitle all other stockholders to purchase, by payment of a \$150 exercise price, one one-thousandth of a share of Series A Participating Preferred Stock, subject to adjustment, with a value of twice the exercise price. In addition, at any time after a 15% position is acquired and prior to the acquisition of a 50% position, the Board of Directors may require, in whole or in part, each outstanding Right (other than Rights held by the acquiring person or group of affiliated persons) to be exchanged for one share of Common Stock or one one-thousandth of a share of Series A Preferred Stock. The Rights may be redeemed at a price of \$0.001 per Right at any time prior to their expiration.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****13 STOCK OWNERSHIP PLANS**

Total non-cash stock compensation expense is \$3,013,000, \$5,905,000, and \$7,193,000, in 2009, 2008, and 2007, respectively.

Stock Options

The Company has reserved 1,898,259 shares of Common Stock for issuance to employees under an incentive and nonstatutory stock option and restricted stock plan approved by stockholders. Options are granted at a price equal to the fair market value on the date of the grant and are exercisable, upon vesting, over a ten year period.

A summary of stock option activity is as follows:

| <i>(Thousands of Shares)</i> | 2009 | 2008 | 2007 |
|---------------------------------|-------|-------|-------|
| Under option, beginning of year | 263 | 1,195 | 939 |
| Granted | 783 | - | 304 |
| Exercised | - | - | (1) |
| Canceled | (37) | (932) | (47) |
| Under option, end of year | 1,009 | 263 | 1,195 |
| Exercisable, end of year | 191 | 171 | 749 |

Weighted average prices of stock options are as follows:

| | 2009 | 2008 | 2007 |
|---------------------------|---------|-------|----------|
| Granted | \$ 2.07 | \$ - | \$ 28.72 |
| Exercised | - | - | 21.50 |
| Under option, end of year | 9.40 | 34.69 | 35.61 |

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model. The table below outlines the weighted average assumptions for options granted.

| | 2009 | 2007 |
|----------------|------|------|
| Dividend yield | - % | 2.5% |

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| | | |
|-------------------------|---------|---------|
| Volatility | 105.0% | 18.7% |
| Risk-free interest rate | 2.45% | 4.5% |
| Expected life (years) | 4.7 | 4.7 |
| Estimated fair value | \$ 1.57 | \$ 5.16 |

A summary of stock options outstanding at September 27, 2009 is as follows:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------------|-----------------------|---|---------------------------------------|-----------------------|---------------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$ 1 to 25 | 783,000 | 9.9 | \$ 2.07 | - | \$ - |
| 25 to 30 | 99,430 | 6.3 | 28.69 | 64,455 | 28.68 |
| 30 to 35 | 30,466 | 2.8 | 32.51 | 30,466 | 32.51 |
| 35 to 40 | 51,165 | 4.6 | 38.42 | 51,165 | 38.42 |
| 40 to 45 | 23,008 | 3.5 | 43.26 | 23,008 | 43.26 |
| 45 to 50 | 22,352 | 4.4 | 47.63 | 22,352 | 47.63 |
| | 1,009,421 | 8.8 | \$9.40 | 191,446 | \$35.86 |

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Total unrecognized compensation expense for unvested stock options at September 27, 2009 is \$1,182,000, which will be recognized over a weighted average period of 2.8 years. In 2008, the Company canceled 852,000 outstanding stock options for certain of its key employees who voluntarily tendered such options to the Company for cancellation and termination without consideration or promise of consideration for their shares.

There were no exercises of stock options in 2009 or 2008. The exercise of stock options in 2007 resulted in cash proceeds of \$28,000, and income tax benefits of \$3,000.

The intrinsic value of stock options exercised in 2007 is \$7,000. The aggregate intrinsic value of options outstanding and exercisable at September 27, 2009, is zero.

Restricted Common Stock

Restricted Common Stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment, generally within three years of the grant date for reasons other than normal retirement, death or disability.

A summary of restricted Common Stock activity follows:

| <i>(Thousands of Shares)</i> | 2009 | 2008 | 2007 |
|--------------------------------|-------|-------|-------|
| Outstanding, beginning of year | 746 | 416 | 335 |
| Granted | - | 482 | 197 |
| Vested | (114) | (112) | (106) |
| Forfeited | (179) | (40) | (10) |
| Outstanding, end of year | 453 | 746 | 416 |

Weighted average grant date fair values of restricted Common Stock are as follows:

| | 2009 | 2008 | 2007 |
|--------------------------------|----------|----------|----------|
| Outstanding, beginning of year | \$ 21.60 | \$ 36.60 | \$ 43.91 |
| Granted | - | 15.02 | 28.73 |
| Vested | 39.53 | 46.66 | 45.24 |
| Forfeited | 15.94 | 27.95 | 34.94 |
| Outstanding, end of year | 19.35 | 21.60 | 36.60 |

The fair value of restricted Common Stock vested in 2009, 2008, and 2007, is \$171,000, \$1,743,000, and \$3,004,000, respectively.

Total unrecognized compensation expense for unvested restricted Common Stock as of September 27, 2009 is \$2,033,000, which will be recognized over a weighted average period of less than one year.

At September 27, 2009, 888,838 shares are available for granting of non-qualified stock options or issuance of restricted Common Stock.

Stock Purchase Plans

The Company has 270,000 shares of Common Stock available for issuance pursuant to the Company's Employee Stock Purchase Plan (the ESPP). In 2007, the purchase price provision of the ESPP was amended to 85% of the fair market value on the exercise date, beginning with the 2008 offering. The Company's expense in 2008 and 2007 is based on the difference between the fair value of shares purchased and the purchase price.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 2009, the ESPP was suspended. In 2008 and 2007, employees purchased 150,000 and 121,000 shares, respectively, under the ESPP at a price of \$6.60 in 2008 and \$22.48 in 2007. The market value on the purchase date was \$7.77 in 2008 and \$26.18 in 2007.

The Company also has 8,700 shares of Common Stock available for issuance under the Company's Supplemental Employee Stock Purchase Plan (the SPP). Under the SPP, an offering period is each three-month calendar quarter, unless changed, and the last business day of each calendar quarter is the exercise date for such quarterly offering period. The purchase price is 85% of the market price on the last business day of each calendar quarter during the offering period.

In 2009, the SPP was suspended. Employees purchased 73,000, and 25,000 shares, respectively, at a weighted average price of \$5.20 in 2008 and \$19.47 in 2007 under the SPP. The weighted average market values on the purchase dates in 2008 and 2007 are \$6.11, and \$22.91 respectively.

14 INCOME TAXES

Income tax expense (benefit) consists of the following:

| <i>(Thousands)</i> | 2009 | 2008 | 2007 |
|-------------------------|-------------|--------------|-----------|
| Current: | | | |
| Federal | \$ (3,573) | \$ 24,442 | \$ 36,623 |
| State | 643 | 3,383 | 3,881 |
| Deferred | (79,582) | (264,829) | (6,309) |
| | \$ (82,512) | \$ (237,004) | \$ 34,195 |
| Continuing operations | \$ (82,509) | \$ (242,633) | \$ 33,828 |
| Discontinued operations | (3) | 5,629 | 367 |
| | \$ (82,512) | \$ (237,004) | \$ 34,195 |

Income tax expense (benefit) related to continuing operations differs from the amounts computed by applying the U.S. federal income tax rate to income (loss) before income taxes. The reasons for these differences are as follows:

| | 2009 | 2008 | 2007 |
|--|---------|---------|-------|
| Computed expected income tax expense (benefit) | (35.0)% | (35.0)% | 35.0% |
| State income taxes, net of federal tax benefit | (3.7) | (3.0) | 3.0 |
| Net income of associated companies taxed at dividend rates | (0.3) | (0.1) | (2.0) |
| Domestic production deduction | - | (0.1) | (0.8) |
| Resolution of tax matters | - | (0.3) | (5.9) |
| Impairment of goodwill and other assets | 12.2 | 14.9 | - |
| Valuation allowance | (6.1) | 2.3 | - |

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| | | | |
|-------|----------------|------------------|--------------|
| Other | 1.5 (31.4)% | (0.5) (21.8)% | 0.1 29.4% |
|-------|----------------|------------------|--------------|

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Net deferred income tax liabilities consist of the following components:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|--|----------------------|----------------------|
| Deferred income tax liabilities: | | |
| Property and equipment | \$ (32,975) | \$ (35,339) |
| Investments in partnerships | (18,185) | (45,082) |
| Identified intangible assets | (59,036) | (103,234) |
| | (110,196) | (183,655) |
| Deferred income tax assets: | | |
| Accrued compensation | 7,458 | 11,737 |
| Allowance for doubtful accounts and losses on loans | 1,682 | 1,668 |
| Pension and postretirement benefits | 3,950 | (943) |
| Long-term debt and interest rate exchange agreements | (1,398) | (2,276) |
| State operating loss carryforwards | 18,205 | 13,266 |
| Accrued expenses | 6,747 | 5,774 |
| Other | 3,893 | 3,258 |
| | 40,537 | 32,484 |
| Valuation allowance | (20,469) | (33,023) |
| Net deferred income tax liabilities | \$ (90,128) | \$ (184,194) |

Net deferred income tax liabilities are classified as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|-------------------------------------|----------------------|----------------------|
| Current assets | \$ 3,638 | \$ 3,675 |
| Non-current liabilities | (93,766) | (187,869) |
| Net deferred income tax liabilities | \$ (90,128) | \$ (184,194) |

The Company adopted the provisions of FASB ASC Topic 740, *Income Taxes*, as of October 1, 2007. As a result of the adoption of FASB ASC Topic 740, the Company recognized a \$1,733,000 increase in income taxes payable, which was accounted for as a reduction of retained earnings. The Company also recognized a \$196,000 purchase accounting-related decrease in income taxes payable, which was accounted for as a decrease in goodwill.

A reconciliation of 2009 changes in gross unrecognized tax benefits is as follows:

| <i>(Thousands)</i> | 2009 |
|---|-----------|
| Balance, beginning of year | \$ 12,815 |
| Increases in tax positions for prior years | 299 |
| Decreases in tax positions for prior years | (2,670) |
| Increases in tax positions for the current year | 1,331 |

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| | |
|---------------------------------|-----------|
| Lapse in statute of limitations | (1,134) |
| Settled items | (455) |
| Balance, end of year | \$ 10,186 |

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$6,342,000 at September 27, 2009. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. The amount of accrued interest related to unrecognized tax benefits was, net of tax, \$1,645,000 at September 27, 2009 and \$1,152,000 at September 28, 2008. There were no amounts provided for penalties at September 27, 2009.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

At September 27, 2009, the Company has approximately \$560,218,000 of net operating loss carryforwards (NOLs) for state tax purposes that expire between 2010 and 2029. Such NOLs result in a deferred income tax asset of \$18,205,000 at September 27, 2009, of which \$18,057,000 is offset by a valuation allowance. The valuation allowance not related to NOLs is \$2,412,000 at September 27, 2009 and \$21,071,000 at September 28, 2008.

Correction of an Error

The Company recorded a \$30,019,000 increase in the valuation allowance for deferred tax assets in the 13 weeks ended September 28, 2008. In the 13 weeks ended December 28, 2008, the Company determined that it had not considered the benefit of net operating loss carrybacks in its determination of the 2008 valuation allowance for deferred tax assets. The correction of this error resulted in a decrease of \$8,431,000 in the valuation allowance included in net deferred income tax liabilities recorded as of September 28, 2008, a corresponding increase in income tax benefit in the 13 weeks ended September 28, 2008, and a decrease in diluted loss per common share of \$0.19. The Company determined that the impact of this error on previously issued Consolidated Financial Statements is not material. The September 28, 2008 Consolidated Balance Sheet, and the related Consolidated Statements of Operations and Comprehensive Income (Loss), Stockholders' Equity and Cash Flows for 2008, included herein, have been revised to reflect the corrected amounts.

15 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company adopted FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, in 2009. FASB ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC Topic 820 establishes a three-level hierarchy of fair value measurements based on whether the inputs to those measurements are observable or unobservable and consists of the following levels:

- Level 1 Quoted prices for identical instruments in active markets;
- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets; and
- Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following table summarizes the financial instruments measured at fair value in the accompanying Consolidated Financial Statements as of September 27, 2009:

| <i>(Thousands)</i> | Level 2 | Level 3 | Total |
|---|----------|---------|----------|
| Interest rate swaps and collars liability | \$ 3,445 | \$ - | \$ 3,445 |
| Herald Value liability (see Note 19) | - | 2,300 | 2,300 |

In 2009, the Company reduced the carrying value of property and equipment no longer in use by \$4,579,000, based on estimates of the related fair value in the current market.

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The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate value. The carrying amounts of cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short maturity of those instruments. The carrying value of other investments, consisting of debt and equity securities in a deferred compensation trust, is carried at fair value based upon quoted market prices. Investments totaling \$8,608,000, consisting primarily of the Company's 17% ownership of the nonvoting common stock of TCT, are carried at cost. The fair value of floating rate debt cannot be determined as an active market for such debt does not exist. The Company's fixed rate debt consists of the \$178,000,000 principal amount of Pulitzer Notes, as discussed more fully in Note 7, which is not traded on an active market and is held by a small group of Noteholders. Coupled with the volatility of substantially all

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domestic credit markets that exists in the current recession, the Company is unable, as of September 27, 2009 and September 28, 2008, to determine the fair value of such debt. The value, if determined, would likely be less than the carrying amount.

16 EARNINGS (LOSS) PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share:

| <i>(Thousands, Except Per Common Share Data)</i> | 2009 | 2008 | 2007 |
|--|---------------|---------------|---------------|
| Income (loss) available to common stockholders: | | | |
| Continuing operations | \$ (123,186) | \$ (880,601) | \$ 80,328 |
| Discontinued operations | (5) | 285 | 671 |
| | \$ (123,191) | \$ (880,316) | \$ 80,999 |
| Weighted average Common Shares | 44,952 | 45,478 | 46,088 |
| Less non-vested restricted Common Stock | (510) | (665) | (417) |
| Basic average Common Shares | 44,442 | 44,813 | 45,671 |
| Dilutive restricted Common Stock | - | - | 133 |
| Diluted average Common Shares | 44,442 | 44,813 | 45,804 |
| Earnings (loss) per common share: | | | |
| Basic: | | | |
| Continuing operations | \$(2.77) | \$(19.65) | \$1.76 |
| Discontinued operations | - | 0.01 | 0.01 |
| | \$ 2.77) | \$(19.64) | \$1.77 |
| Diluted: | | | |
| Continuing operations | \$(2.77) | \$(19.65) | \$1.75 |
| Discontinued operations | - | 0.01 | 0.01 |
| | \$(2.77) | \$(19.64) | \$1.77 |

For 2009, 2008, and 2007, the Company had 314,000, 263,000, and 1,128,000 weighted average shares, respectively, subject to issuance under its stock option and employee stock purchase plans that have no intrinsic value. No stock options were considered in the computation of earnings (loss) per common share in 2009, 2008 or 2007.

17 ALLOWANCE FOR DOUBTFUL ACCOUNTS

Valuation and qualifying account information related to the allowance for doubtful accounts receivable is as follows:

| <i>(Thousands)</i> | 2009 | 2008 | 2007 |
|------------------------------|----------|-----------|-----------|
| Balance, beginning of year | \$ 6,647 | \$ 10,266 | \$ 11,247 |
| Additions charged to expense | 5,995 | 5,977 | 5,727 |

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| | | | |
|--------------------------|----------|----------|-----------|
| Deductions from reserves | (6,367) | (9,596) | (6,708) |
| Balance, end of year | \$ 6,275 | \$ 6,647 | \$ 10,266 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****18 OTHER INFORMATION**

Compensation and other accrued liabilities consist of the following:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|-------------------------------------|----------------------|----------------------|
| Compensation | \$ 12,858 | \$ 21,706 |
| Retirement and stock purchase plans | 10,533 | 13,486 |
| Interest | 5,644 | 8,872 |
| Other | 13,720 | 16,352 |
| | \$ 42,755 | \$ 60,416 |

Cash payments are as follows:

| <i>(Thousands)</i> | 2009 | 2008 | 2007 |
|------------------------------|-----------|-----------|-----------|
| Interest | \$ 80,690 | \$ 80,960 | \$ 86,767 |
| Debt financing costs | 26,061 | - | - |
| Income taxes, net of refunds | 6,905 | 26,173 | 55,693 |

Components of accumulated other comprehensive income, net of deferred income taxes, are as follows:

| <i>(Thousands)</i> | September 27 2009 | September 28 2008 |
|--|----------------------|----------------------|
| Unrealized loss on interest rate exchange agreements | \$ (1,446) | \$ (2,069) |
| Unrealized gain on available-for-sale securities | - | 434 |
| Pension and postretirement benefits | 22,800 | 44,828 |
| Total accumulated other comprehensive income | \$ 21,354 | \$ 43,193 |

19 COMMITMENTS AND CONTINGENT LIABILITIES**Operating Leases**

The Company has operating lease commitments for certain of its office, production, and distribution facilities. Management expects that in the normal course of business, existing leases will be renewed or replaced. Minimum lease payments during the five years ending September 2014 and thereafter are \$4,178,000, \$3,651,000, \$2,867,000, \$2,177,000, \$1,001,000, and \$5,627,000, respectively. Total operating lease expense is \$5,029,000, \$5,325,000, and \$5,518,000, in 2009, 2008, and 2007, respectively.

Capital Expenditures

At September 27, 2009, the Company had construction and equipment purchase commitments totaling approximately \$482,000.

***St. Louis Post-Dispatch* Early Retirement Programs**

In 2007, the *St. Louis Post-Dispatch* concluded an offering of early retirement incentives that resulted in an adjustment of staffing levels. 60 employees volunteered to take advantage of the offer, which includes enhanced pension and insurance benefits, and lump-sum cash payments based on continuous service. The initial cost totaled \$10,704,000 before income tax benefit of which \$7,962,000 was recorded as expense in 2007. The \$2,742,000 remaining cost was offset against previously existing unrecognized gains in certain of the Company's defined benefit plans. Approximately \$3,700,000 of the cost represents cash payments, with the remainder due primarily to enhancements of pension and other postretirement benefits. Cash payments of \$442,000 were made in 2007, and the remainder was paid in 2008.

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Redemption of PD LLC Minority Interest

In 2000, Pulitzer and The Herald Company Inc. (Herald Inc.) completed the transfer of their respective interests in the assets and operations of the *St. Louis Post-Dispatch* and certain related businesses to a new joint venture, known as PD LLC. Pulitzer is the managing member of PD LLC. Under the terms of the related Operating Agreement, Pulitzer and another subsidiary held a 95% interest in the results of operations of PD LLC and The Herald Publishing Company, LLC (Herald), as successor to Herald Inc., held a 5% interest. Until February 2009, Herald's 5% interest was reported as minority interest in the Consolidated Statements of Operations and Comprehensive Income (Loss) at historical cost, plus accumulated earnings since the acquisition of Pulitzer.

Also, under the terms of the Operating Agreement, Herald Inc. received on May 1, 2000 a cash distribution of \$306,000,000 from PD LLC. This distribution was financed by the Pulitzer Notes. Pulitzer's investment in PD LLC was treated as a purchase for accounting purposes and a leveraged partnership for income tax purposes.

The Operating Agreement provided Herald a one-time right to require PD LLC to redeem its interest in PD LLC, together with its interest, if any, in DS LLC (the 2010 Redemption). The 2010 Redemption price for Herald's interest was to be determined pursuant to a formula. The Company recorded the present value of the remaining amount of this potential liability in its Consolidated Balance Sheet in 2008, with the offset primarily to goodwill in the amount of \$55,594,000, and the remainder recorded as a reduction of retained earnings. In 2009 and 2008, the Company accrued increases in the liability totaling \$1,466,000 and \$8,838,000, respectively, which increased net loss available to common stockholders. The present value of the 2010 Redemption in February 2009, was approximately \$73,602,000.

In February 2009, in conjunction with the Notes Amendment, PD LLC redeemed the 5% interest in PD LLC and DS LLC owned by Herald pursuant to a Redemption Agreement and adopted conforming amendments to the Operating Agreement. As a result, the value of Herald's former interest (the Herald Value) will be settled, at a date determined by Herald between April 2013 and April 2015, based on a calculation of 10% of the fair market value of PD LLC and DS LLC at the time of settlement, less the balance, as adjusted, of the Pulitzer Notes or the equivalent successor debt, if any. The Company has recorded a liability of \$2,300,000 at September 27, 2009 as an estimate of the amount of the Herald Value to be disbursed. The actual amount of the Herald Value will depend on such variables as future cash flows and indebtedness of PD LLC and DS LLC, market valuations of newspaper properties and the timing of the request for redemption.

The Redemption Agreement also terminated Herald's right to exercise its rights under the 2010 Redemption. As a result, the Company reversed substantially all of its liability for the 2010 Redemption in 2009. The reversal reduced liabilities by \$71,302,000 and increased comprehensive income by \$58,521,000 and stockholders' equity by \$68,824,000.

The redemption of Herald's interest in PD LLC and DS LLC is expected to generate significant tax benefits to the Company as a consequence of the resulting increase in the tax basis of the assets owned by PD LLC and DS LLC and the related depreciation and amortization deductions. The increase in basis to be amortized for income tax purposes over a 15 year period beginning in February 2009 is approximately \$258,000,000.

Pursuant to an Indemnity Agreement dated May 1, 2000 (the Indemnity Agreement) between Herald Inc. and Pulitzer, Herald agreed to indemnify Pulitzer for any payments that Pulitzer may make under the Guaranty Agreement. The Indemnity Agreement and related obligations of Herald to indemnify Pulitzer were also terminated pursuant to the Redemption Agreement.

Stock Repurchase Program

In 2008, the Company announced its intention to acquire up to \$30,000,000 of its Common Stock in open market and private transactions. In 2008, 1,722,280 shares were acquired and returned to authorized shares at an average price of \$10.98.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The 2009 Amendments to the Credit Agreement require the Company to suspend share repurchases through April 2012.

Income Taxes

Commitments exclude unrecognized tax benefits to be recorded in accordance with FASB ASC Topic 740, *Income Taxes*. The Company is unable to reasonably estimate the ultimate amount or timing of cash settlements with the respective taxing authorities for such matters. See Note 14.

The Company files income tax returns with the IRS and various state tax jurisdictions. From time to time, the Company is subject to routine audits by those agencies, and those audits may result in proposed adjustments. The Company has considered the alternative interpretations that may be assumed by the various taxing agencies, believes its positions taken regarding its filings are valid, and that adequate tax liabilities have been recorded to resolve such matters. However, the actual outcome cannot be determined with certainty and the difference could be material, either positively or negatively, to the Consolidated Statements of Operations and Comprehensive Income (Loss) in the periods in which such matters are ultimately determined. The Company does not believe the final resolution of such matters will be material to its consolidated financial position or cash flows.

The IRS has completed its review of the Company's income tax returns through 2004 and the tax returns of Pulitzer through 2005. The Company has various state income tax examinations ongoing and at various stages of completion, but generally the state income tax returns have been audited or closed to audit through 2005.

Legal Proceedings

The Company is involved in a variety of legal actions that arise in the normal course of business. Insurance coverage mitigates potential loss for certain of these matters. While the Company is unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters will not have a material adverse effect on the Company's Consolidated Financial Statements, taken as a whole.

In 2008, a group of newspaper carriers filed suit against the Company in the United States District Court for the Southern District of California, claiming to be employees and not independent contractors of the Company. The plaintiffs seek relief related to violation of various employment-based statutes, and request punitive damages and attorneys' fees. The suit is in the discovery stage and an initial decision by the judge regarding class certification is expected in 2010. At this time the Company is unable to predict whether the ultimate economic outcome, if any, could have a material effect on the Company's Consolidated Financial Statements, taken as a whole. The Company denies the allegations of employee status, consistent with past practices of the Company and the industry, and intends to vigorously contest the action, which is not covered by insurance.

20 IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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In 2008, the FASB issued ASC Topic 805, *Business Combinations*, and ASC Topic 810, *Consolidations*. FASB ASC Topic 805 establishes requirements for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interests. For the Company, the provisions of FASB ASC Topic 805 are effective for business combinations occurring in 2010. FASB ASC Topic 810 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of stockholders' equity. FASB ASC Topic 810 is effective for the Company in 2010. The effect of FASB ASC Topic 805 is dependent on future transactions. The effect of FASB ASC Topic 810 will not materially affect the Company's Consolidated Financial Statements.

In 2008, the FASB issued ASC Topic 815, *Derivatives and Hedging*. FASB ASC Topic 815 requires disclosure regarding the objectives and strategies for using derivative instruments and the credit-risk-related features. ASC Topic 815 also requires disclosure of the fair value amounts and the gains and losses on derivative instruments in tabular form. ASC Topic 815 is effective for the Company in 2010.

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| <i>(Thousands, Except Per Common Share Data)</i> | December | Quarter Ended | | September |
|--|-------------|---------------|-------------|--------------|
| | | March | June | |
| 2009 | | | | |
| Operating revenue | \$ 243,555 | \$ 198,844 | \$ 203,805 | \$ 195,826 |
| Income (loss) from continuing operations | \$ (47,633) | \$ (109,851) | \$ (24,512) | \$ 1,755 |
| Discontinued operations | (5) | - | - | - |
| Net income (loss) | \$ (47,638) | \$ (109,851) | \$ (24,512) | \$ 1,755 |
| Income (loss) available to common stockholders | \$ (48,677) | \$ (51,757) | \$ (24,512) | \$ 1,755 |
| Earnings (loss) per common share: | | | | |
| Basic: | | | | |
| Income from continuing operations | \$ (1.10) | \$ (1.16) | \$ (0.55) | \$ 0.04 |
| Discontinued operations | - | - | - | - |
| | \$ (1.10) | \$ (1.16) | \$ (0.55) | \$ 0.04 |
| Diluted: | | | | |
| Income from continuing operations | \$ (1.10) | \$ (1.16) | \$ (0.55) | \$ 0.04 |
| Discontinued operations | - | - | - | - |
| | \$ (1.10) | \$ (1.16) | \$ (0.55) | \$ 0.04 |
| 2008 | | | | |
| Operating revenue | \$ 279,856 | \$ 247,725 | \$ 256,394 | \$ 244,893 |
| Income (loss) from continuing operations | \$ 21,788 | \$ (705,553) | \$ 3,539 | \$ (191,537) |
| Discontinued operations | 338 | (1) | (52) | - |
| Net income (loss) | \$ 22,126 | \$ (705,554) | \$ 3,487 | \$ (191,537) |
| Income (loss) available to common stockholders | \$ 22,126 | \$ (713,037) | \$ 2,832 | \$ (192,237) |
| Earnings (loss) per common share: | | | | |
| Basic: | | | | |
| Income from continuing operations | \$ 0.48 | \$ (15.90) | \$ 0.07 | \$ (4.34) |
| Discontinued operations | 0.01 | - | - | - |
| | \$ 0.48 | \$ (15.90) | \$ 0.06 | \$ (4.34) |
| Diluted: | | | | |
| Income from continuing operations | \$ 0.48 | \$ (15.90) | \$ 0.06 | \$ (4.34) |
| Discontinued operations | 0.01 | - | - | - |
| | \$ 0.48 | \$ (15.90) | \$ 0.06 | \$ (4.34) |

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Results of operations for the first, second and third quarters of 2009 include non-cash impairment charges, net of deferred income taxes of \$54,321,000, \$114,739,000 and \$27,946,000, respectively.

Results of operations for the second, third and fourth quarters of 2008 include non-cash impairment charges, net of deferred income taxes, of \$708,587,000, \$8,605,000, and \$176,530,000, respectively. Income taxes for the fourth quarter of 2008 include additional income tax expense of \$21,071,000 related to an increase in the valuation allowance for deferred tax assets. See Note 14.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Lee Enterprises, Incorporated:

We have audited the accompanying consolidated balance sheets of Lee Enterprises, Incorporated and subsidiaries (the Company) as of September 27, 2009 and September 28, 2008, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity and cash flows for the 52-week periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the consolidated financial statements of Madison Newspapers, Inc. and Subsidiary (MNI), (a 50 percent owned investee company) as of September 27, 2009 and for the 52-week period then ended. The Company's investment in MNI at September 27, 2009, was \$24,131,000, and its equity in earnings of MNI was \$2,609,000 for the 52-week period then ended. The consolidated financial statements of MNI for this period were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MNI as of and for the 52-week period ended September 27, 2009, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lee Enterprises, Incorporated as of September 27, 2009 and September 28, 2008, and the results of their operations and their cash flows for the 52-week periods then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 9 and 10 to the consolidated financial statements, effective September 27, 2009, the Company changed the measurement date of its pension and postretirement obligations to the date of the fiscal year-end balance sheet in accordance with ASC Topic 715, *Retirement Plans*. As discussed in Note 14 to the consolidated financial statements, effective October 1, 2007, the Company changed its method of accounting for uncertain tax positions in accordance with ASC Topic 740, *Income Taxes*.

/s/ KPMG LLP

Chicago, Illinois

December 11, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders

Lee Enterprises, Incorporated and subsidiaries

Davenport, Iowa

We have audited, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 3 to the consolidated financial statements, the Consolidated Statements of Operations and Comprehensive Income (Loss), Stockholders' Equity, and Cash Flows for the year ended September 30, 2007 of Lee Enterprises, Incorporated and subsidiaries (the Company) (the 2007 consolidated financial statements before the effects of the retrospective adjustments discussed in Note 3 to the consolidated financial statements are not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2007 consolidated financial statements, before the effects of the retrospective adjustments for the discontinued operations discussed in Note 3 to the consolidated financial statements, present fairly, in all material respects, the results of operations and cash flows of Lee Enterprises, Incorporated and subsidiaries for the year ended September 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the discontinued operations discussed in Note 3 to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

As discussed in Notes 9 and 10 to the consolidated financial statements, the Company adopted ASC Topic 715, *Retirement Plans*, which changed its method of accounting for pension and other post retirement benefits as of September 30, 2007.

Davenport, Iowa

November 29, 2007